

FY 2002 ECONOMIC OUTLOOK,
HIGHLIGHTS FROM FY 1994 TO FY 2001,
FY 2002 BASELINE PROJECTIONS



January 2001

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GENERAL NOTES

1. All years referred to are fiscal years, unless otherwise noted.
2. Detail in this document may not add to the totals due to rounding.

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON 2001

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone (202) 512-1800 Fax: (202) 512-2250
Mail: Stop SSOP, Washington, DC 20402-0001

ISBN 0-16-050639-5

I. THE PRESIDENT'S TRANSMITTAL MESSAGE

I. THE PRESIDENT'S TRANSMITTAL MESSAGE

To the Congress of the United States:

I am pleased to submit my *FY 2002 Economic Outlook, Highlights from FY 1994 to FY 2001, FY 2002 Baseline Projections*. For the benefit of the new Administration and the public, this document includes an economic overview, a technical presentation of current services projections, a programmatic review of the Federal Government that details my Administration's actions over the last eight years, and pending policy proposals that I believe should be the starting point for a new Administration.

The Outlook in 1993

To appreciate what we have accomplished in the past eight years, we must take stock of where we were in 1993. When I took office in 1993, economic growth had averaged only 1.7 percent in the four previous years. In 1992, unemployment surged to 7.8 percent. In 1992, the budget deficit was \$290 billion, the largest in the history of our Nation. The debt held by the public quadrupled between 1980 and 1992 and threatened to keep mounting. The deficit was projected to reach \$390 billion by 1998 and \$639 billion by 2003.

I believed that by exercising fiscal responsibility and making strategic investments in our future, we could reverse this trend and spur the economy to robust growth. Eight years later, with deficits turned to surplus, with the mountain of debt receding, and with sustained economic growth at record level, we can say that we were able to achieve this goal through a steadfast commitment to fiscal discipline.

The Clinton-Gore Record

Over the eight years of my Administration, our total deficit reduction totals \$1.2 trillion, more than double our original estimates. We have experienced four straight years of surplus, a stretch of prosperity last seen following World War I. For three years in a row, we have actually been able to pay off \$363 billion of this debt and expect to pay off \$600 billion by the end of this year. With a sustained commitment to fiscal discipline by continuing to use the surplus to pay down the debt, this Nation can be fully debt-free in this decade for the first time since 1835. We can eliminate the publicly held debt by the end of the decade and, by doing so, we can strengthen our economy and our Nation's prospects for the future.

FY 2002 Economic Outlook, Highlights from FY 1994 to FY 2001, FY 2002 Baseline Projections continues to project that the Federal budget will remain in surplus for many decades to come, if a responsible fiscal policy prevails and realistic assumptions and projections are used.

The Federal Government must continue to meet the needs of the American people in a Nation with a growing economy and a growing population. We take for granted the need to maintain critical functions like air traffic safety, law enforcement, the administration of Social Security and Medicare, and national security—both defense and diplomacy. Because I firmly believe that the American people demand and deserve a Government that meets their needs, this document reflects the progress we have made in serving the American people. These accomplishments include:

- Improving education, with initiatives focusing on accountability and school-system

reforms; increased funding for Pell Grants and Work-Study Programs; and, initiatives to reduce class size, establish after-school programs, improve reading ability, expand mentoring and education technology, and renovate crumbling schools. The results are significant. For example, 29,000 teachers have been hired, on our way to the goal of hiring 100,000 new teachers to reduce class size, and there has been a six-fold increase in the number of Title I elementary schools with after-school programs. We have doubled funding for Head Start, and increased funding for higher education programs—the biggest increase since the G.I. Bill.

- Rewarding work and “ending welfare as we know it,” with incentives to States for moving welfare recipients into jobs, encouraging businesses to hire people from welfare rolls, expanding the Earned Income Tax Credit, tripling funding for dislocated worker training, and increasing funding for child care. Since January 1993, the welfare rolls have decreased from 14.1 million to 6.3 million, the fewest number of people on welfare since 1968.
- Making Social Security solvency a national priority, with the challenge to “save Social Security first,” ensuring that Social Security funds are used to pay for Social Security and strengthen our economic health.
- Achieving the longest Medicare Trust Fund solvency in a quarter century while improving Medicare’s benefits.
- Reversing the increase in the number of uninsured Americans through the Children’s Health Insurance Program (CHIP) and other policies. Over 3.3 million children have received health insurance through the CHIP.
- Setting the highest level of environmental standards ever. More land in the lower 48 States has been protected under the Antiquities Act than by any other Administration; 58.5 million acres of national forest will be protected from road building and logging; unprecedented legislation will provide \$12 billion over six years in dedicated funding for the conservation of America’s land and coastal resources; climate change and clean water funding was increased; and, efforts to fight budget riders that would have sacrificed hard-won environmental safeguards to special-interests succeeded.
- Increasing investments in science and technology, as the keys to economic growth. Funding for medical research at the National Institutes of Health doubled, allowing for breakthroughs such as the complete sequencing of the human genome and new therapies to prevent breast cancer.
- Securing funding to hire over 100,000 additional community police officers, making our streets safer. My Administration’s initiatives to reduce crime contributed to the lowest annual serious crime count since 1985.
- Giving Americans confidence that when natural disasters occur, such as the Northridge Earthquake, Hurricane Floyd, and the Midwest Floods, their Government will help them return to prosperity.
- Implementing the Uruguay Round, the North American Free Trade Agreement, and other major agreements, to liberalize trade and financial markets, aid construction of a new global economic architecture, and promote growth.
- Fighting transnational threats, such as HIV/AIDS, terrorism, and environmental destruction, as well as securing historic debt relief for countries in crisis and resources to fight child abuse at home and abroad.
- Improving the security of Americans at home and abroad, through increased funding for embassy security.
- Strengthening our national security by promoting stability in responding to natural disasters in Central America and Africa, as well as man-made crises in Kosovo, Bosnia, and Indonesia.
- Maintaining the Nation’s security, with the best-equipped, best-trained, and best-prepared military in the world.

This document also highlights the dramatic improvements in the management of the Federal Government we have made over the last eight years. We have used information technology to create a Government that is more accessible and responsive to citizens. The Federal Government has reinvented the way it buys goods and services, focusing on customer satisfaction and results. We have transformed the Federal financial management system. Eight years ago, only a few agencies routinely prepared and issued audited financial statements. Now virtually all agencies issue annual audited financial statements. More than half of the 24 largest agencies received clean audits in 1999. In addition, significant strides have been made to advance the transparency and underpinnings of the regulatory process and improve the Nation's statistics. These management functions are the essentials of governmental operations. Doing them very well rarely garners attention. Failing to do them can undermine program and policy effectiveness as certainly as bad policy decisions or inadequate program implementation.

As the Nation looks to the future, there are several important areas where additional work is needed. Examples include:

- Providing prescription drug coverage for Medicare beneficiaries;
- Passing legislation to stiffen penalties for hate crimes;
- Ensuring equity for legal immigrants;
- Increasing the minimum wage to support millions of working families;
- Providing a Medicaid buy-in option for children with disabilities in working families;
- Ensuring stability in the Middle East peace process;
- Increasing our embassy security;
- Funding diplomacy as an alternative to crises and violence;
- Striving to hire 100,000 new teachers to reduce class size;

- Helping school districts to obtain financing to construct and modernize schools; and,
- Expanding and improving the quality of the Head Start program.

My Hopes for the Nation

This is a rare moment in American history. Never before has our Nation enjoyed so much prosperity, at a time when social progress continues to advance and our position as the global leader is secure. Today, we are well prepared to make the choices that will shape the future of our Nation for decades to come.

By reversing the earlier trend of fiscal irresponsibility, using conservative economic estimates, balancing the budget, and producing an historic surplus, we have helped restore our national spirit and produced the resources to help opportunity and prosperity reach all corners of this Nation. We have it within our reach today, by making the right choices, to offer the promise of prosperity to generations of Americans to come. If we keep to the path of fiscal discipline, we can build a foundation of prosperity for the future of the Nation.

Over the last eight years, I have sought to provide the fiscal discipline necessary to ensure the continuing growth of our economy while making essential investments in the future of our people—especially those who are less fortunate. The results are evident. I present this document with pride in our accomplishments, and the hope that this progress will continue and grow for all Americans.

In the past eight years, we have enjoyed extraordinary economic performance because our fiscal policy was responsible and sound. To continue the Nation's strong economic performance, we must maintain our commitment to a sound fiscal policy. Experience over the last twenty years clearly shows how perilous it is to create conditions for budgetary problems. We are now enjoying the benefits of a virtuous cycle of surplus and debt reduction and must not return to the vicious cycle of red ink.

The challenge now, in this era of surplus, is to make balanced choices to use our resources to meet both the evident, pressing

needs of today, and the more distant, but no less crucial, needs of generations to come.

WILLIAM J. CLINTON

January 16, 2001

Table I-1. Baseline Totals

(In billions of dollars)

Category	2000 Actual	Estimate												
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2001–2010	2002–2011
Receipts	2,025	2,125	2,210	2,301	2,401	2,525	2,649	2,788	2,934	3,088	3,257	3,434	26,278	27,587
Outlays	1,789	1,868	1,933	1,994	2,058	2,145	2,204	2,279	2,365	2,450	2,540	2,623	21,836	22,591
Unified surplus	236	256	277	307	343	380	446	509	570	638	717	810	4,442	4,996
Memorandum														
Compostion of surplus:														
Social Security	152	160	176	194	210	233	247	265	281	295	313	329	2,374	2,543
Postal Service	-2	-2	-3	*	*	1	1	1	1	2	2	2	4	8
Medicare Hospital Insurance (HI) ...	30	27	35	39	44	47	54	56	59	62	67	69	490	532
Remaining on-budget	57	71	69	74	89	99	144	188	228	279	335	410	1,575	1,914
Debt held by the public	3,410	3,173	2,907	2,611	2,277	1,906	1,470	970	411	¹	¹	¹	.....	.....

* \$500 million or less.

¹ Excess balances start to be accumulated in 2006, when the amount of the unified surplus that is available to repay debt held by the public is more than the amount of debt that is available to be redeemed. Excess balances exceed debt held by the public (gross) beginning in 2009. Policy decisions will be required on the use of the surpluses that are accumulated as excess balances.

Table I-2. Baseline Totals by Category
(In billions of dollars)

Category	2000 Actual	Estimate										
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Receipts	2,025.2	2,124.6	2,209.7	2,301.3	2,400.6	2,524.7	2,649.3	2,788.4	2,934.4	3,088.1	3,257.2	3,433.6
Outlays:												
Discretionary:												
Defense	295.0	303.7	306.7	321.1	331.0	340.7	350.6	360.1	369.2	379.5	390.2	401.3
Non-Defense	322.0	350.5	374.9	388.7	397.5	408.0	418.3	429.8	441.7	452.7	464.9	474.7
Subtotal, discretionary	617.0	654.1	681.5	709.8	728.5	748.7	768.9	789.9	810.9	832.2	855.1	876.0
Mandatory:												
Social Security	406.0	431.4	451.3	473.6	498.7	526.4	556.2	588.9	624.5	664.6	708.7	756.0
Medicare and Medicaid	312.0	347.7	369.2	394.2	421.6	456.8	482.6	522.2	561.5	603.8	649.1	704.3
Means-tested entitlements ¹	105.2	108.7	114.5	120.2	125.0	132.3	134.6	136.5	144.1	148.8	154.1	162.1
Other mandatory	125.5	116.2	124.2	122.8	129.3	147.9	153.5	160.3	172.6	182.8	192.4	199.5
Subtotal, mandatory	948.8	1,004.0	1,059.2	1,110.8	1,174.4	1,263.3	1,326.8	1,407.9	1,502.7	1,599.9	1,704.3	1,822.0
Net interest	223.2	210.2	192.0	173.8	154.6	132.8	107.8	81.2	51.4	18.3	-19.3	-74.6
Total Outlays	1,789.0	1,868.3	1,932.8	1,994.4	2,057.5	2,144.8	2,203.5	2,279.1	2,364.9	2,450.4	2,540.1	2,623.4
Surplus	236.2	256.3	276.9	306.9	343.0	379.9	445.8	509.4	569.5	637.6	717.2	810.2

¹Food stamps, TANF/family support, SSI, child nutrition, EITC, veterans pensions, children's health insurance fund.

Table I-3. Federal Government Financing and Debt ¹

(In billions of dollars)

	Actual 2000	Estimate										
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Financing:												
Unified surplus	236	256	277	307	343	380	446	509	570	638	717	810
Social Security surplus	152	160	176	194	210	233	247	265	281	295	313	329
Medicare HI surplus	30	27	35	39	44	47	54	56	59	62	67	69
Postal Service surplus	-2	-2	-3	*	*	1	1	1	1	2	2	2
Other surplus	57	71	69	74	89	99	144	188	228	279	335	410
Means of financing other than borrowing from the public:												
Premiums paid (-) on buybacks of Treasury securities ²	-6	-8	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Changes in: ³												
Treasury operating cash balance	4	13	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Checks outstanding, deposit funds, etc. ⁴	3	-*	-1	.....	.....	.....	.....	.....	.....	.....	.....	.....
Seigniorage on coins	2	2	2	2	2	2	2	2	2	2	2	2
Less: Net financing disbursements:												
Direct loan financing accounts	-22	-25	-14	-15	-13	-14	-14	-14	-14	-14	-14	-14
Guaranteed loan financing accounts	4	-*	1	2	2	2	2	2	2	2	2	2
Total, means of financing other than borrowing from the public	-13	-19	-11	-10	-9	-10	-10	-10	-10	-10	-10	-10
Total, amount available to repay debt held by the public												
Change in debt held by the public: ^{5 6}	223	237	266	296	334	370	436	500	560	628	707	800
Change in debt held by the public (gross)	-223	-237	-266	-296	-334	-370	-147	-171	-97	-128	-72	-52
Less change in excess balances .....	.....	.....	.....	.....	.....	.....	-289	-328	-462	-500	-636	-748
Change in debt held by the public (net)	-223	-237	-266	-296	-334	-370	-436	-500	-560	-628	-707	-800
Debt Subject to Statutory Limitation, End of Year:												
Debt issued by Treasury	5,601	5,608	5,606	5,593	5,563	5,523	5,729	5,930	6,222	6,501	6,860	7,253
Adjustment for Treasury debt not subject to limitation and agency debt subject to limitation ⁷	-15	-15	-15	-15	-15	-15	-15	-15	-15	-15	-15	-15
Adjustment for discount and premium ⁸	6	6	6	6	6	6	6	6	6	6	6	6
Total, debt subject to statutory limitation ⁹	5,592	5,598	5,596	5,584	5,554	5,513	5,719	5,920	6,212	6,491	6,850	7,244
Debt Outstanding, End of Year:												
Gross Federal debt:												
Debt issued by Treasury	5,601	5,608	5,606	5,593	5,563	5,523	5,729	5,930	6,222	6,501	6,860	7,253
Debt issued by other agencies	28	28	27	26	25	23	22	20	20	20	20	20
Total, gross Federal debt	5,629	5,636	5,633	5,620	5,588	5,546	5,751	5,950	6,242	6,521	6,880	7,273
Held by:												
Debt securities held as assets by Government accounts	2,219	2,462	2,726	3,009	3,312	3,639	3,992	4,363	4,752	5,159	5,590	6,036
Debt securities held as assets by the public: ⁶												
Debt held by the public (gross) ¹⁰	3,410	3,173	2,907	2,611	2,277	1,906	1,759	1,587	1,490	1,362	1,290	1,238
Less excess balances .....	.....	.....	.....	.....	.....	.....	-289	-617	-1,079	-1,579	-2,214	-2,962
Debt held by the public (net)	3,410	3,173	2,907	2,611	2,277	1,906	1,470	970	411	¹¹ NA	¹¹ NA	¹¹ NA

*\$500 million or less.

NA = Not applicable.

¹Treasury securities held by the public and zero-coupon bonds held by Government accounts are almost entirely measured at sales price plus amortized discount or less amortized premium. Agency debt is almost entirely measured at face value. Treasury securities in the Government account series are measured at face value less unrealized discount (if any).

²This table includes estimates for Treasury buybacks of outstanding securities only through FY 2001. These estimates assume that Treasury will buy back \$35 billion (face value) of securities in FY 2001. The premiums paid on buybacks are based on experience to date and the interest rates in the economic assumptions.

³A decrease in the Treasury operating cash balance (which is an asset) would be a means of financing a deficit and therefore has a positive sign. An increase in checks outstanding or deposit fund balances (which are liabilities) would also be a means of financing a deficit and therefore would also have a positive sign.

⁴Besides checks outstanding and deposit funds, includes accrued interest payable on Treasury debt, miscellaneous liability accounts, allocations of special drawing rights, and, as an offset, cash and monetary assets other than the Treasury operating cash balance, miscellaneous asset accounts, and profit on sale of gold.

⁵For 2000, includes a \$355 million reclassification of debt. Indian tribal funds that are owned by the Indian tribes and held and managed in a fiduciary capacity by the Government on the tribes' behalf were reclassified from trust funds to deposit funds as of October 1, 1999, and their holdings of Treasury securities were accordingly reclassified from debt held by Government accounts to debt held by the public.

⁶The amount of unified budget surplus available to repay debt held by the public is estimated to be greater than the amount of debt that is available to be redeemed in 2006 and subsequent years. The difference is assumed to be held as "excess balances" and to earn interest at a Treasury rate. ("Excess" means in excess of amounts held for operational and programmatic purposes.) The "debt held by the public (gross)" is the amount of Federal debt securities held by the public. The "debt held by the public (net)" is the "debt held by the public (gross)" less the "excess balances."

⁷Consists primarily of Federal Financing Bank debt.

⁸Consists of unamortized discount (less premium) on public issues of Treasury notes and bonds (other than zero-coupon bonds) and unrealized discount on Government account series securities.

⁹The statutory debt limit is \$5,950 billion.

¹⁰At the end of 2000, the Federal Reserve Banks held \$511 billion of Federal securities and the rest of the public held \$2,899 billion. Debt held by the Federal Reserve Banks is not estimated for future years.

¹¹"Excess balances" start to be accumulated in 2006, when the amount of the unified surplus that is available to repay debt held by the public is more than the amount of debt that is available to be redeemed. Excess balances exceed debt held by the public (gross) beginning in 2009. Policy decisions will be required on the use of the surpluses that are accumulated as excess balances.

II. THE TURNAROUND IN THE BUDGET AND THE ECONOMY

II. THE TURNAROUND IN THE BUDGET AND THE ECONOMY

This section reviews the budgetary and economic performance of the Clinton-Gore Administration, comparing conditions now with those when President Clinton took office. Over the past eight years, the budget has turned from record deficits to record surpluses; the resultant increase in national saving supported sharply rising investment, accelerating productivity, and the longest economic expansion in history. Moreover, the substantial improvement in the budget has set the Federal Government on a path to be debt-free by the end of this decade.

The Clinton-Gore Economic Strategy

President Clinton was elected with the goal of revitalizing the economy. When he took office in January 1993, the economy was slowly emerging from the 1990–1991 recession, with an unemployment rate of 7.5 percent. He proposed a three-part economic strategy: fiscal discipline to free resources for private investment; increased support for investment in our people, including education, health care, and research; and engagement in the international economy, to open markets abroad to our products and services. In the last eight years, this Administration has completed hundreds of agreements that increase our access to foreign markets, and has expanded public human and infrastructure investment (as documented elsewhere in this volume). Furthermore, the Administration's new budget policy was enacted in 1993, and it has proven a great success.

The budget deficit, which had reached a record \$290 billion in 1992, has steadily fallen, until in 1998 there was a budget surplus for the first time in 29 years. The budget is projected to end the current fiscal year with a surplus of \$256 billion—the fourth year in a row of surplus, for the longest period of budget surpluses since the 1920s; and by far the longest string of consecutive years of budget improvement in our Nation's history.

The turnaround in the budget supported a remarkable turnaround in the economy. Financial markets responded to the shift from deficits to surpluses by reducing long-term interest rates. Real interest rates (actual market rates minus expected inflation) were about 1.2 percentage point lower on average under this Administration than they were during the previous 12 years. Lower real interest rates stimulated more business investment, leading to rising productivity, higher profits, and increased real wages. The average rate of economic growth accelerated to 4.0 percent per year.

The investment boom strengthened and prolonged the economic expansion, which by February 2000 had become the longest in U.S. history. This February, it will complete its tenth year. President Clinton is the first two-term President to leave office without enduring a recession. The past eight years were an extraordinary combination of low inflation, falling unemployment, soaring productivity, rising real wages, and declining poverty—which continued into the new millennium.

Budgetary Performance

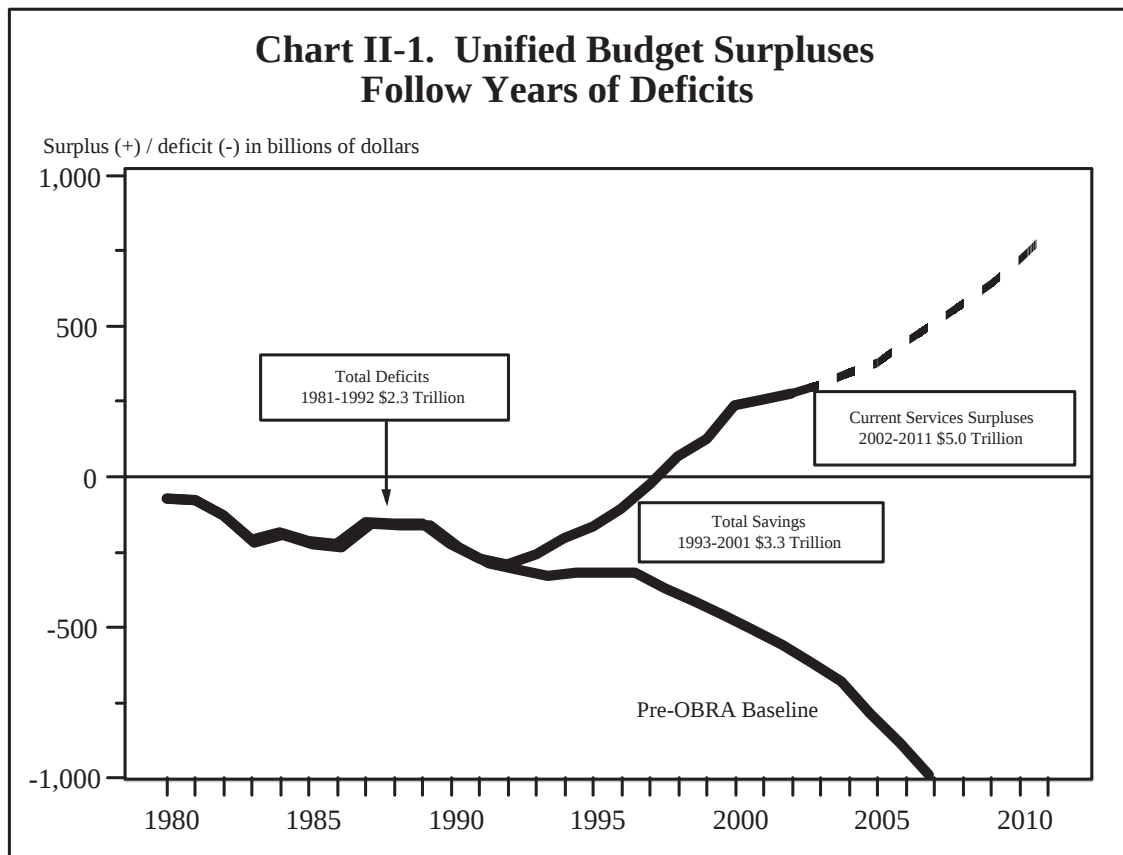
Before 1993, 12 years of burgeoning budget deficits had quadrupled the amount of Federal debt held by the public—an increase of \$2.3 trillion. Relative to the size of the economy, the debt almost doubled—rising from 26 percent of Gross Domestic Product (GDP) in 1980 to 48 percent in 1992. The Administration's first priority was to cut the massive deficit (and thus slow the rise in Federal debt). To accomplish that, the Administration proposed, and the Congress enacted, the Omnibus Budget Reconciliation Act (OBRA) of 1993. It was a crucial step toward fiscal responsibility. The Administration expected OBRA to reduce the deficit significantly; but the actual improvement in the budget far exceeded these expectations. To finally eliminate the budget deficit, the President

and the Congress agreed to the bipartisan Balanced Budget Act (BBA), enacted in 1997, which set a goal of a balanced budget by 2002. In 1998, the budget went into surplus four years ahead of schedule, accelerated by stronger-than-projected economic growth.

Deficit Reduction Was Augmented by its Favorable Economic Effects: The cumulative results of OBRA and the BBA were a stunning turnaround. The Administration originally projected that OBRA would reduce the deficit by a cumulative \$505 billion from 1994 through 1998. In fact, the total deficit reduction over this period was more than twice as large—\$1.2 trillion (and \$3.3 trillion from 1993 through 2001) as long-term fiscal discipline proved its value by accelerating economic growth (see Chart II-1). As financial markets saw that the risk of exploding future deficits and Federal borrowing would truly decline, they brought market interest rates down—reducing the deficit directly, but more importantly, reducing the cost of capital to busi-

nesses, and stimulating investment and growth.

Government Debt Was Reduced: When the Government runs a deficit, it borrows from the public and accumulates debt. The huge deficits incurred to pay for World War II pushed the publicly held Federal debt to a peak of 109 percent of GDP in 1946. For many years thereafter, the economy grew faster than the debt; and the ratio of the debt to the GDP gradually fell to a low of around 25 percent in the mid-1970s. The exploding deficits of the 1980s reversed this trend, and sent the debt back up—until it peaked at almost 50 percent of GDP in 1993. Had the Clinton-Gore Administration done nothing, both OMB and the Congressional Budget Office (CBO) had projected that publicly held Federal debt would have approached \$7 trillion (or 75 percent of GDP) by 2002, and would have risen even further thereafter. Instead, the Administration's deficit reduction policy cut the ratio of debt to GDP immediately; and the budget surpluses

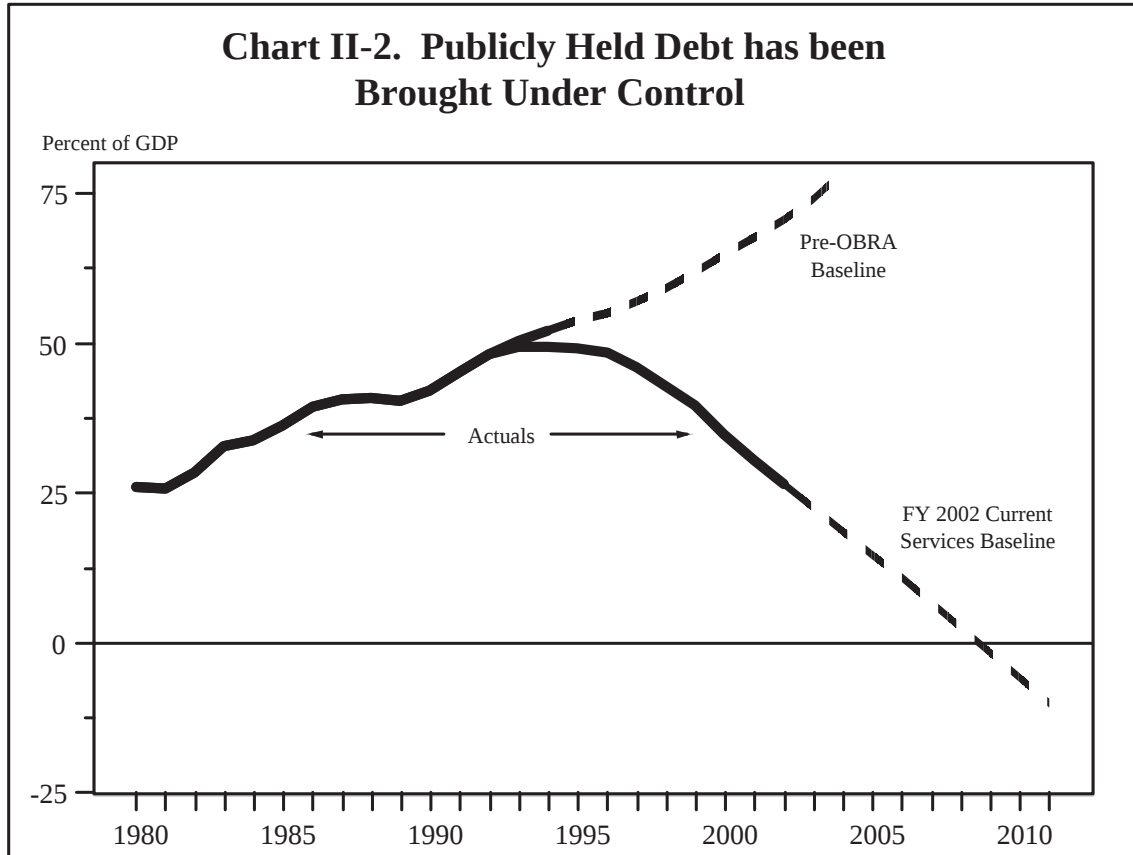


since 1998 have actually reduced the dollar amount of debt, and driven the debt to GDP ratio down even faster. The ratio of publicly held debt to GDP in 2000 was 30 percentage points lower than was projected as of 1993, based on the policies before the Administration's budget plan.

Moreover, the pay-down in debt in the past three years (\$363 billion) and the expected amount this year (\$237 billion) combine to a \$600 billion debt reduction—the largest four-year debt pay-down ever. As Chart II-2 shows, this substantial reduction and the prospect of continuing surpluses have put the debt held by the public on a trajectory that can eliminate the Federal Government's debtor status by the end of this decade.

There Are Now Unified, Social Security, and On-Budget Surpluses: The unified budget has been the most common framework for tallying the Federal Government's deficits and surpluses. The unified budget counts all Gov-

ernment receipts and spending (including Social Security contributions and benefits). This is the appropriate budget concept to evaluate how the Federal Government's activities affect the economy; obviously, for that purpose, it is essential to leave nothing out. The improvement in this overall budget surplus is shown in Chart II-1, and its effect on bringing down debt held by the public is shown in Chart II-2. Also, each of the major components of the unified budget is in surplus: the off-budget surplus—the excess of Social Security receipts over benefit payments, and the relatively small amount of transfers to or from the United States Postal Service—has increased from \$45 billion to \$158 billion between 1993 and 2001; and the on-budget balance—the rest of the unified budget—has swung from a \$300 billion deficit to a \$98 billion surplus (see Chart II-3). The Medicare surplus (which this Administration has proposed to move off-budget to protect that vital program's Trust Fund) has grown as well—from \$4 billion in 1993 (and small



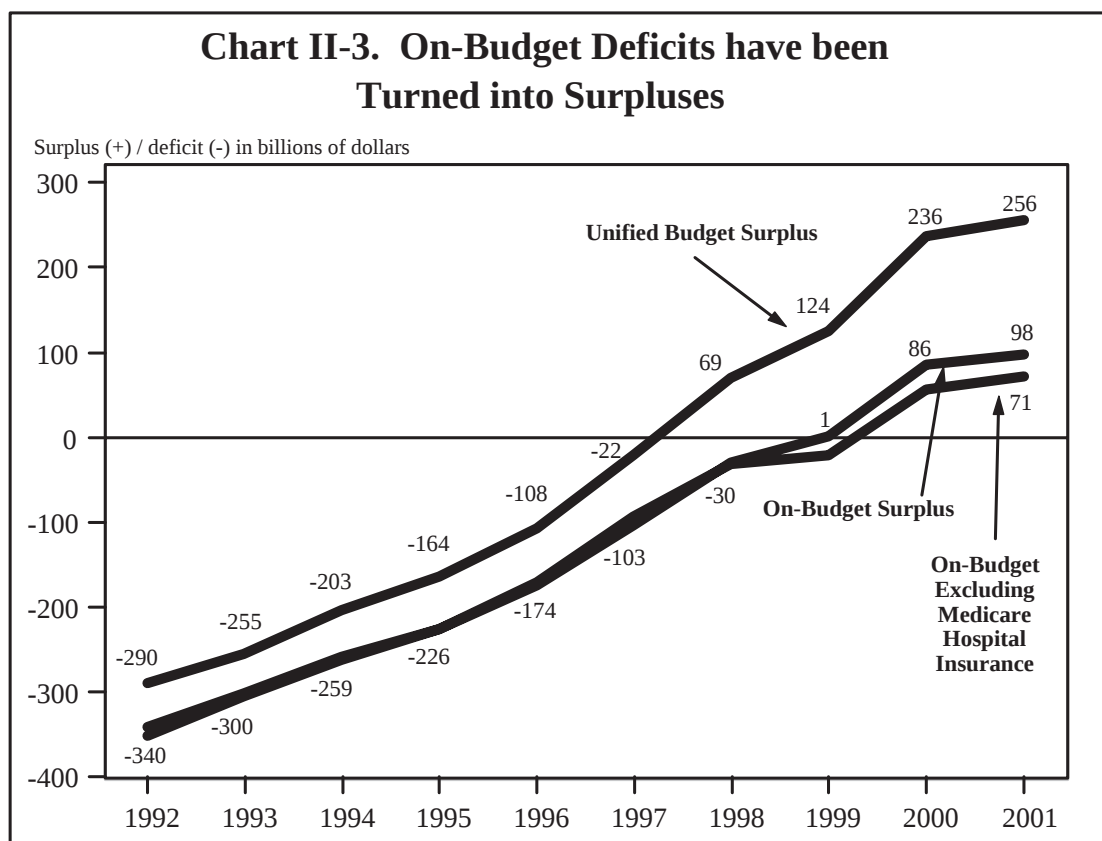
deficits from 1995 through 1997) to \$27 billion in 2001.

A crucial part of the Clinton-Gore Administration's policy has been to save and protect the Social Security surpluses. The larger balances in the Social Security Trust Funds, and the interest that they earn, can finance Social Security benefits further into the future. Balances are currently invested in Federal securities—the most secure asset available. If Trust Fund assets were to be partly invested in private market instruments—such as stocks and bonds, rather than Federal debt—then the return earned by the Trust Fund could be somewhat higher, on average, over long periods. However, though the allocation of gross Federal debt between debt in the Trust Funds and debt held by the public would change, the total amount of gross debt would not change. The buildup of assets in the Trust Funds will correspond to a real increase in national wealth, and enhance the Government's ability to pay

future benefits, only if it is saved by reducing the publicly held debt. This can be ensured if the Social Security surplus is protected by keeping the non-Social Security budget (approximately equal to the “on-budget”) at least in balance. The consistent swing of the on-budget from deficit into surplus in this Administration has done just that.

As is clear from Chart II-3, the shift from unified budget deficit to surplus was mainly due to the elimination of the on-budget deficit. But whichever framework is used, the Federal Government's fiscal position since President Clinton took office has improved dramatically.

Government's Claim on the Economy Was Reduced while Prosperity Spurred Receipts: Federal spending reached the highest share of the economy since World War II in the 1980s; it was still 22.2 percent of GDP in 1992. The defense buildup in the early 1980s, higher Federal interest payments

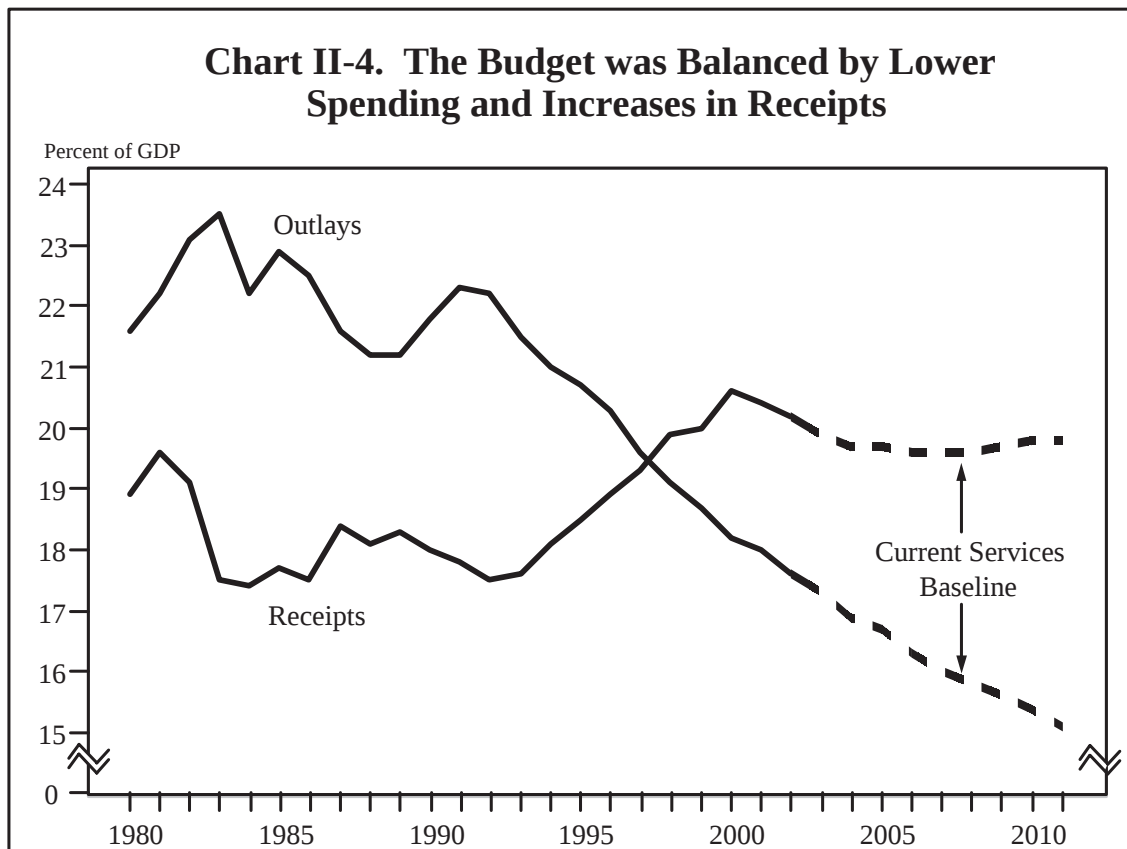


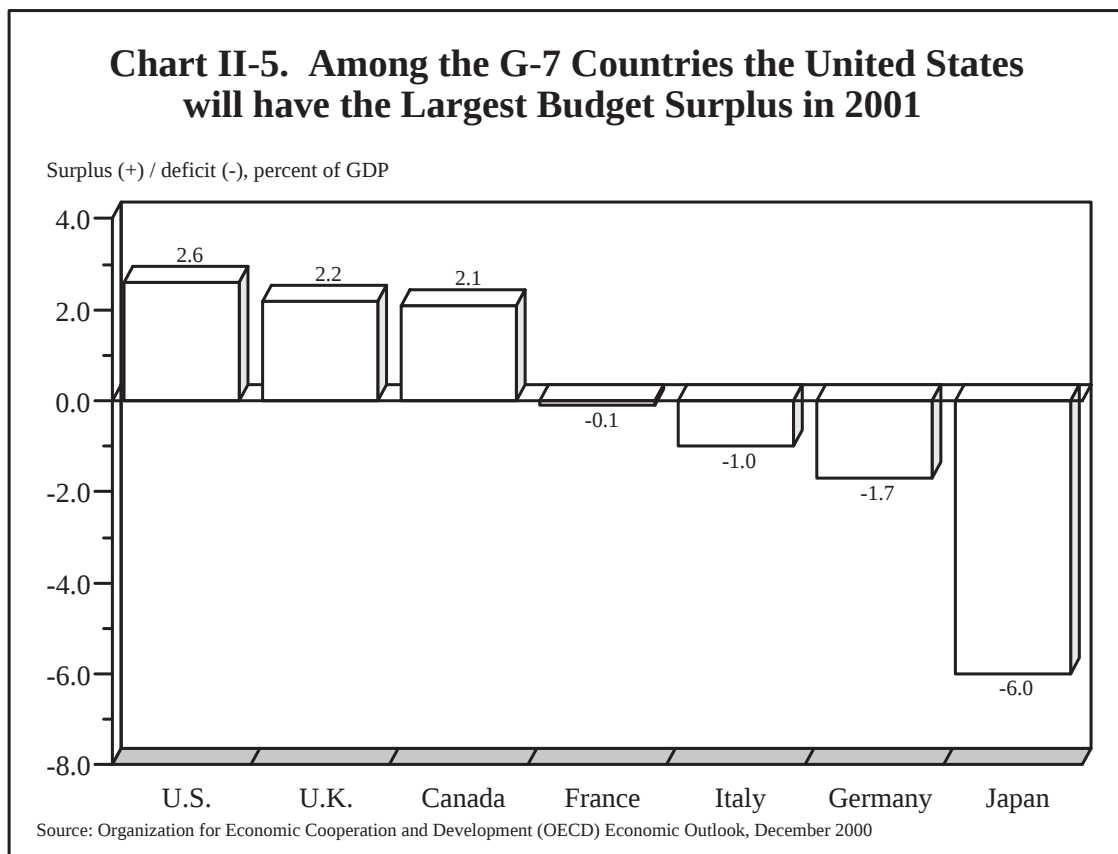
because of increased debt and high interest rates, and large cost increases in Federal health programs overwhelmed all deficit-cutting efforts. This spending share turned down under President Clinton—even while the Administration increased Government investments in education, health care, the environment, and other priorities. In the last eight years, the ratio of Federal spending to GDP has steadily declined; in 2000 it was down to 18.2 percent, the lowest since the 1960s. At the same time, a healthy economy plus a strong stock market raised Federal tax receipts. Though tax burdens on most families have declined, the share of Federal receipts in GDP rose from 18.5 percent in 1995 to 20.6 percent in 2000—because of the rapid growth of incomes. Some of this increase may prove temporary; the Treasury Department estimates that receipts will decline to about 19.7 percent of GDP over the course of this decade—again, with no increase in tax rates (see Chart II-4).

The United States Has Become a World Leader in Budgetary Performance: In the 1980s, world opinion often faulted the United States for its large budget deficits, which were believed to have raised worldwide interest rates and hampered economic growth. The Clinton-Gore Administration's fiscal policy changed this criticism to praise, as the United States became a leader among the G-7 countries. In 2001, the United States is projected to have the largest budget surplus as a share of its economy (see Chart II-5). This outstanding performance came not from higher tax rates, but from spending restraint. Though the United States supports the world's largest defense establishment, it still has the G-7's lowest public spending and taxes as percentages of GDP.

Economic Performance

Government does not make the economy grow; the private sector is the engine of economic growth. The American people have



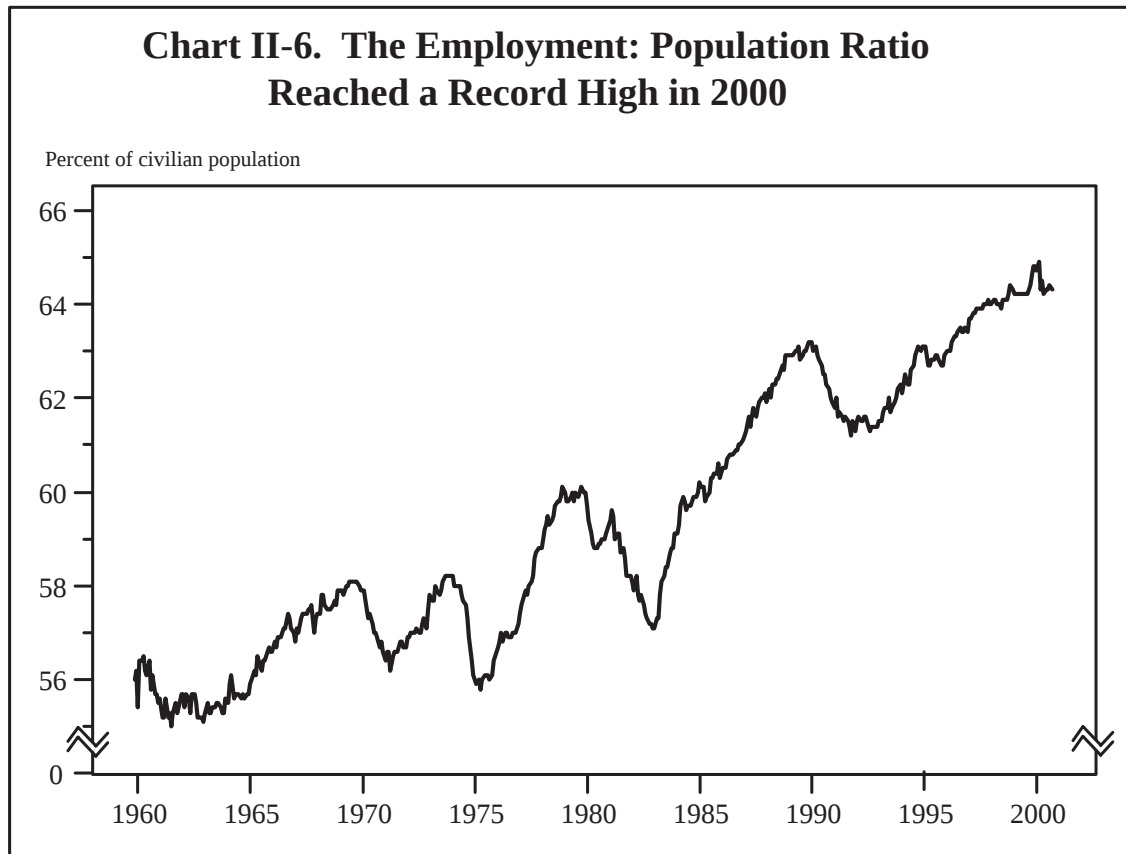


always been entrepreneurial and productive. However, the economy can grow faster and more consistently when budget policy, and monetary policy, are sound. Good budgetary policy is as important as monetary policy to such a successful outcome. And in fact, though the Federal Reserve has played a crucial role in this economic expansion, monetary policy was able to do its job better and more easily because of the sound fiscal policy of this Administration, as Fed members have acknowledged. Fiscal discipline, along with investment in our people and opening markets abroad—the other key elements of the Clinton economic strategy—has paid clear dividends in the economic performance of the 1990s.

Work Effort in the U.S. Economy Is at an All-Time High: Under the Clinton-Gore Administration, the share of the adult population that is employed has reached the highest point in U.S. history (see Chart II-6). The

economic expansion, gaining strength as a result of greater confidence, lower interest rates, more investment, and accelerating productivity, created a veritable explosion of good job opportunities. Continuing investment in education at all levels improved the skills of new entrants into the labor force. Welfare reform and expansions of the Earned Income Tax Credit have increased labor force participation.

Between January 1993 and December 2000, the unemployment rate fell from 7.3 percent to 4.0 percent—the lowest it has been since the end of the 1960s. The economy created more than 22 million jobs, of which 92 percent were in the private sector, while Federal Government employment shrank. The net increase in jobs was larger under President Clinton than under the two previous Administrations combined. The healthy private labor market helped to make welfare reform a success by providing people leaving the welfare rolls with productive opportunities.

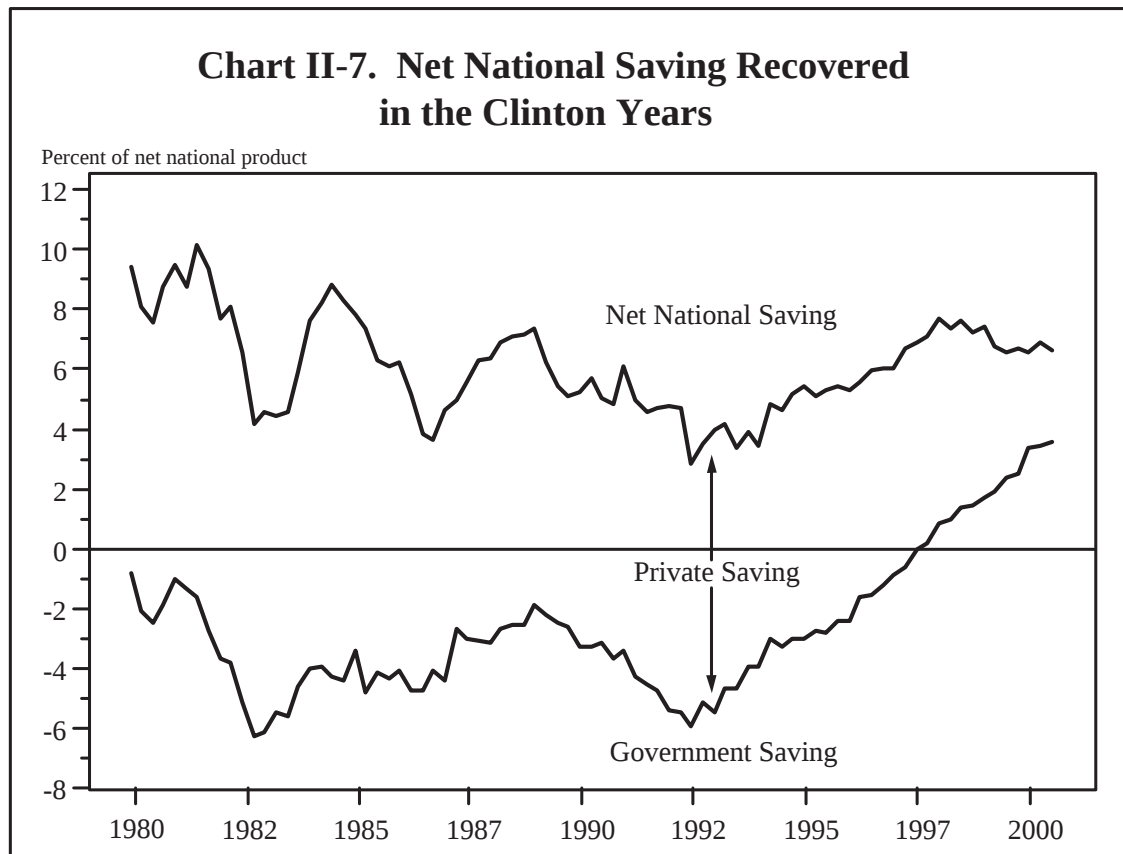


Real wages have risen under this Administration; the increase has been especially noticeable since 1995. Over the last five years, real hourly earnings have increased at an average annual rate of 1.3 percent per year. Over the preceding 20 years, hourly earnings had been falling at an average annual rate of 0.4 percent per year.

Administration Budget Policy Promoted National Saving: To get more capital, the economy needs more saving. For the economy as a whole, what matters is national saving—the sum of household saving, corporate retained earnings, and the Government surplus. Household saving is important, but it is only one component of national saving. A business that seeks to raise investment capital by floating a bond or selling a share of stock does not care, or even know, whether the funds come ultimately from households, other businesses, or government. National saving declined under the two preceding Administra-

tions, but increased under President Clinton (see Chart II-7). This is a critical piece of evidence that the economic expansion of the 1990s is fundamentally different from that of the 1980s.

Furthermore, as is shown in Chart II-7, the entirety of the improvement in national saving came from the reduction of the Federal budget deficit. (The Federal Government's budget improved by more than the total increase in national saving; State and local governments as a group run roughly balanced budgets in every year, and hence did not contribute significantly to the budget improvement.) The overwhelming contribution of budget policy toward eliminating the 1998 budget deficit came from the Clinton-Gore Administration's initial budget plan. The BBA of 1997 and the economic growth generated by the Administration's fiscal discipline finished the job.

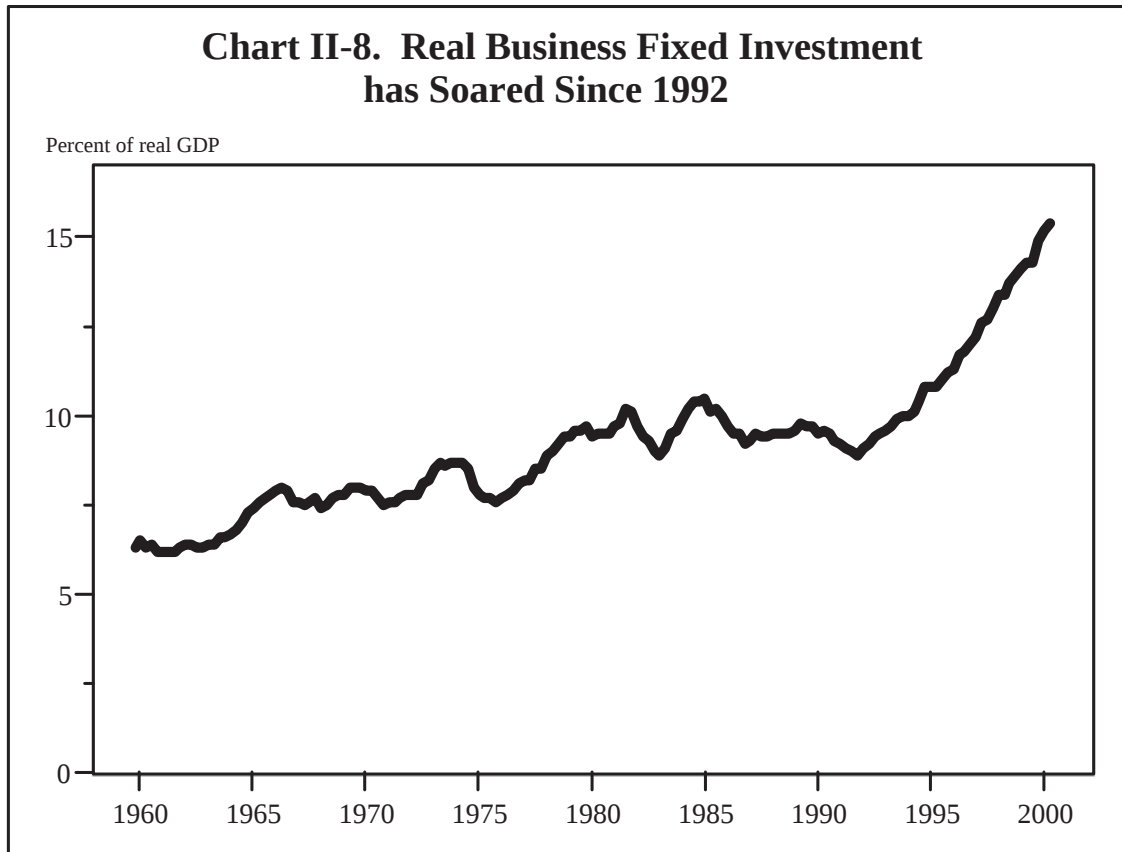


National saving went down in the 1980s, and up in the 1990s. National saving went up because Federal budget policy produced surpluses. And the Federal budget improvement began with the policy actions taken by the Administration in 1993.

Lower Interest Rates Enhanced Investment: The point of the Administration's policy of increasing national saving was to reduce Government's drain on investable funds, to bring down interest rates while increasing the funds available for private investment. This is a matter of supply and demand; with a larger supply of investable funds because of increased Government saving, the price of the funds—the interest rate—would be expected to go down. With the enactment of the President's program, interest rates fell; and even though unemployment has steadily declined since, interest rates have remained at or below the levels of the preceding recession.

With lower interest rates, businesses enjoyed a lower cost of capital for investment—a lower cost to take savings and convert it into capital for use in production. Given that national saving generally declined from 1980 to 1992, and increased from 1993 to the present, it might be expected that investment would be stronger under the current Administration than it was in the preceding 12 years; and again, that is what the record shows. The share of GDP devoted to business investment over the 1980s either declined slightly or was flat depending on the precise measure chosen. However, investment soared during the Clinton-Gore Administration (see Chart II-8).

The ratio of real business equipment investment to real GDP reached 12.4 percent in the third quarter of 2000. Since the beginning of 1993, inflation-adjusted investment in equipment and software has grown at an annual rate of 13.0 percent, more than $2\frac{3}{4}$ times the rate of 1981–1992. The

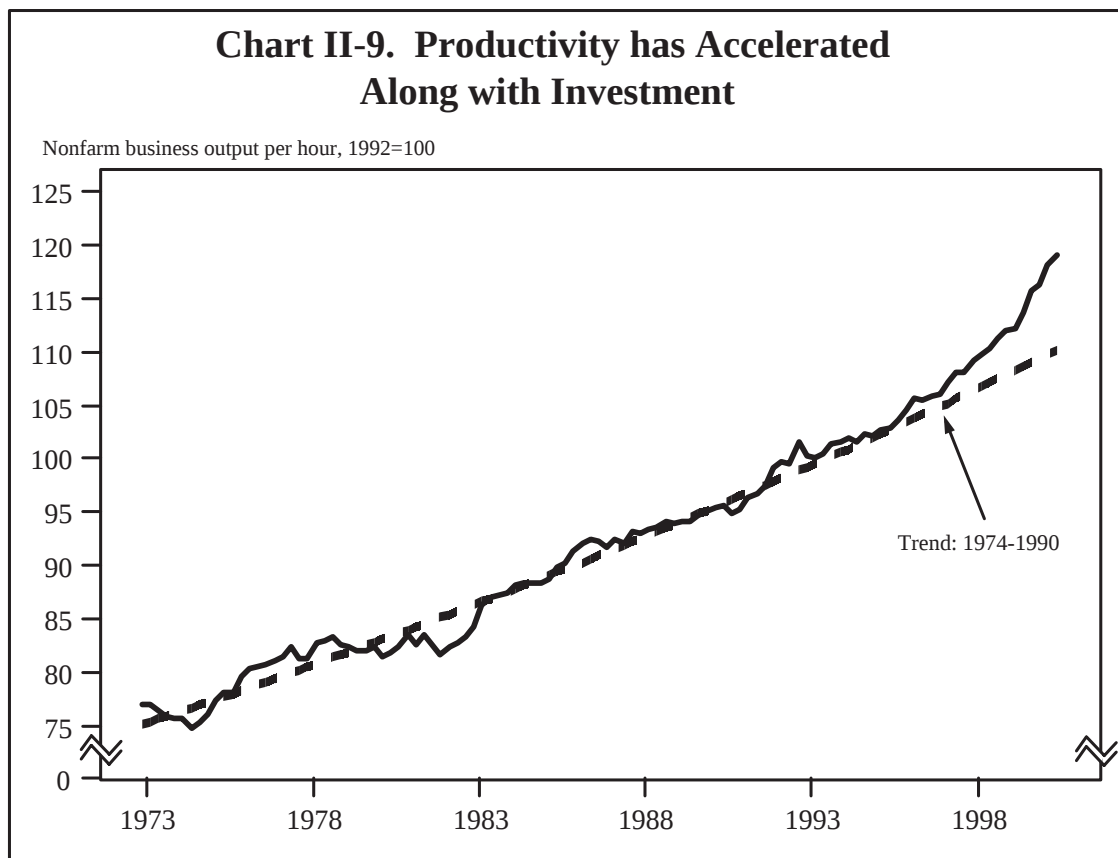


investment boom under President Clinton is the longest and strongest since World War II. The private sector has done the investing, but the Administration's policy of balanced budgets and fiscal responsibility clearly helped to bring interest rates down; and that helped to create the environment in which businesses could more confidently take business risks.

The Benefits of Faster Productivity Growth: Economists believe that strong investment pays a double dividend. First, it increases the size of the productive base of the economy; with more factories and machines, output can expand. But second, to the extent that new factories and machines are more efficient than the ones they replace, then productivity (the amount of output that we get from each hour of work) will rise. Under President Clinton, productivity growth has broken from the trend line that had prevailed since the early 1970s (see Chart II-9).

Enhanced productivity growth is important for many reasons; but perhaps most pertinent today, it makes an economic expansion more durable. Economic cycles usually end because inflation breaks out, which can occur when investment falls and productivity growth slows—as it did at the end of the 1970s, and the end of the 1980s. Continued strong investment has helped the current business expansion to continue for so long with low inflation. Productivity growth has increased, not declined, as this expansion has matured. Thanks to accelerated productivity growth due partly to increased capital intensity, the current expansion has lasted for almost 10 years; in February 2000, it became the longest expansion in U.S. history (the data go back to the mid-1800s), and each passing month sets a new record.

Increasing productivity is also important because it is the only route to sustained real-wage and living-standard growth. In the 1970s, U.S. productivity growth slowed



sharply. The average annual growth of output per hour in the nonfarm business sector fell from 2.8 percent (from 1949 through 1973) to 1.4 percent (from 1974 through 1990). When productivity grows at 2.8 percent per year, living standards double every quarter-century; but when productivity grows at only 1.4 percent per year, incomes grow by less than half. Over a generation, many workers can find themselves falling behind their parents, as well as their own expectations.

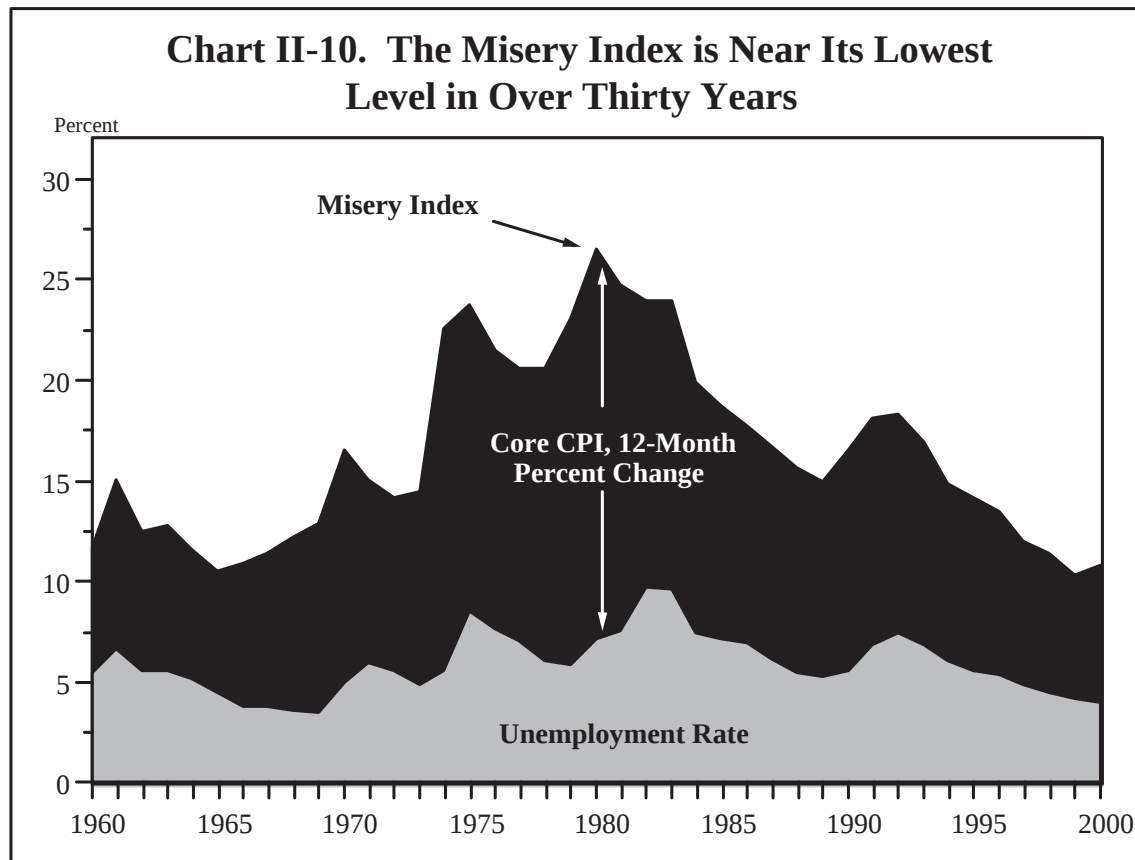
From the 1970s through the early 1990s, productivity growth stalled at the new slower rate. Since the mid-1990s, however, nonfarm business output per hour has grown at an average of 3.0 percent per year—slightly higher than the rate before the 1970s' slowdown (the break in the trend is shown in Chart II-9). Some of the speedup could be due to temporary factors; but the persistence of the higher growth rate for five years suggests that somewhat faster growth

may be sustained. This is welcome news, not only for businesses seeking to hold down costs, but also for typical workers and their families, who once again see real improvements in their earnings.

The Misery Index Is Near a 30-Year Low:

The success of budget and monetary policies shows also in the low unemployment and inflation under this Administration. The Misery Index—the sum of the annual unemployment rate and the core Consumer Price Index (CPI) inflation rate—was lower than at any time since the 1960s (see Chart II-10).

In 2000, the unemployment rate has averaged 4.0 percent—the lowest yearly average since 1969—while inflation has averaged just 2.7 percent (as measured by the core CPI, excluding volatile food and energy prices). The inflation rate crept up this year after its 34-year low in 1999, but remains near its average since 1995. This is the fifth year in a row of core inflation under three



percent—the best five-year record since the 1960s.

The turnaround in economic performance under President Clinton—faster economic growth, falling unemployment, and lower inflation—happened in the private sector; but it was aided by the Administration’s budget policy and the Federal Reserve’s monetary policy. The past eight years demonstrate that fiscal discipline and a matching monetary policy can generate more work, saving, and investment than an easy budget policy that ignores deficits and debt.

The Economic Outlook

The Clinton-Gore Administration has developed a final economic forecast, continuing

its conservative, prudent approach (See Table II-1). No economic forecaster is accurate all the time, but the Administration believes that it makes more sense to plan for middle-of-the-road conditions, so that any budget errors are likely to be in the “right” direction, rather than to make long-term commitments for the best-case forecast, only to see spiraling uncontrolled deficits and debt. Previous Administrations more often overestimated economic performance; such mistakes are dangerous, because they can encourage policymakers to avoid hard and essential choices. One of the Administration’s most important early decisions was to adopt a realistic economic forecast, and this philosophy has served the Nation well.

Table II-1. Economic Assumptions¹

(Calendar years; dollar amounts in billions)

	Actual 1999	Projections											
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Gross Domestic Product (GDP):													
Levels, dollar amounts in billions:													
Current dollars	9,299	9,991	10,536	11,099	11,695	12,324	12,986	13,676	14,388	15,122	15,888	16,692	17,536
Real, chained (1996) dollars	8,876	9,337	9,645	9,954	10,272	10,601	10,941	11,284	11,627	11,968	12,315	12,672	13,039
Chained price index (1996 = 100), annual average	104.8	107.0	109.2	111.5	113.8	116.2	118.7	121.2	123.7	126.3	129.0	131.7	134.5
Percent change, fourth quarter over fourth quarter:													
Current dollars	6.5	6.7	5.3	5.4	5.4	5.4	5.4	5.3	5.2	5.1	5.1	5.1	5.1
Real, chained (1996) dollars	5.0	4.1	3.2	3.2	3.2	3.2	3.2	3.1	3.0	2.9	2.9	2.9	2.9
Chained price index (1996 = 100)	1.6	2.4	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Percent change, year over year:													
Current dollars	5.8	7.4	5.5	5.3	5.4	5.4	5.4	5.3	5.2	5.1	5.1	5.1	5.1
Real, chained (1996) dollars	4.2	5.2	3.3	3.2	3.2	3.2	3.2	3.1	3.0	2.9	2.9	2.9	2.9
Chained price index (1996 = 100)	1.5	2.2	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Incomes, billions of current dollars:													
Corporate profits before tax	823	934	922	934	961	990	1,035	1,080	1,127	1,162	1,196	1,226	1,251
Wages and salaries	4,470	4,767	5,031	5,310	5,608	5,917	6,233	6,566	6,904	7,264	7,637	8,028	8,437
Other taxable income ²	2,141	2,286	2,353	2,422	2,488	2,561	2,649	2,745	2,843	2,943	3,048	3,152	3,263
Consumer Price Index (all urban):³													
Level (1982–84 = 100), annual average	166.7	172.3	176.8	181.4	186.2	191.2	196.4	201.7	207.2	212.7	218.5	224.4	230.4
Percent change, fourth quarter over fourth quarter	2.6	3.4	2.5	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Percent change, year over year	2.2	3.4	2.7	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Unemployment rate, civilian, percent:													
Fourth quarter level	4.1	4.0	4.3	4.6	4.7	4.8	4.9	5.0	5.1	5.1	5.1	5.1	5.1
Annual average	4.2	4.0	4.1	4.4	4.6	4.7	4.8	4.9	5.0	5.1	5.1	5.1	5.1
Federal pay increases, percent:													
Military and civilian ⁴	3.6	4.8	3.7	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Interest rates, percent:													
91-day Treasury bills ⁵	4.7	5.9	6.0	5.7	5.4	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
10-year Treasury notes	5.6	6.1	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8

¹ Based on information as of mid-November 2000.² Rent, interest, dividend and proprietor's components of personal income.³ Seasonally adjusted CPI for all urban consumers. Two versions of the CPI are now published. The index shown here is that currently used, as required by law, in calculating automatic adjustments to individual income tax brackets.⁴ Beginning with 2002, projected increases in the Employment Cost Index for private industry wages and salaries.⁵ Average rate (bank discount basis) on new issues within period.

The Near-Term Outlook

Real GDP Growth: Over the coming 10 years, the *Blue Chip* panel of 50 forecasters predicts a trend of real GDP growth averaging around 3.3 percent for most of the decade. The Administration's forecast for the next five years averages 3.2 percent. After 2005, the Administration projects growth slowing gradually to 2.9 percent per year in 2009–2011. Later this decade, the large baby-boom generation—born in the 20 years following World War II—will begin to retire. When that happens, labor force growth is likely to slow, pulling down real GDP growth. The initial effects of this demographic transition are reflected in the Administration's projections of real GDP for 2006–2011. It is not clear whether the private forecasters have begun to take account of this predictable shift in the labor force.

It is uncertain how much of the actual acceleration in productivity growth since 1995 will be sustained; but since last year's forecast, favorable evidence has mounted, and most economists are now more sanguine about prospects for productivity growth. Compared with the 2001 Budget assumptions, the Administration has increased projected potential GDP growth, and now projects that labor productivity in the nonfarm business sector can increase at an average rate of 2.2 percent per year through 2011.

Unemployment and Inflation: The unemployment rate in December was 4.0 percent, near the lowest point in three decades. It is projected to rise somewhat over the next few years, and to stabilize at an average rate of 5.1 percent—still well below the 6.7 percent average rate from 1970 through 1992.

Inflation was boosted this year by a spike in oil prices; but oil futures market prices imply relief in 2001, and so inflation is likely to decline. The Administration projects CPI inflation of 2.5 percent in 2001 (on a fourth quarter to fourth quarter basis), following a 3.4 percent rate during 2000. CPI inflation is expected to average 2.7 percent per year for 2002 through 2011—close to the average of 2.5 over the past five years. Inflation in the GDP chain-weighted price index is projected to average 2.1 percent through 2011. These projections maintain the

gap that has emerged in recent years between these two measures of inflation.

For several years, real GDP has grown faster than mainstream forecasters believed would be sustainable without higher inflation. This year's moderate upward revision to the estimate of potential GDP growth is consistent with this performance; strong investment in new technologies is paying off in higher productivity. However, some of the rapid GDP growth of the last eight years came because labor force participation was increasing and unemployment was falling. Looking ahead, the unemployment rate is likely to rise slightly and labor growth is projected to slow, which the Administration believes will moderate the pace of GDP growth.

Interest Rates: Interest rates on Treasury debt fell to extremely low levels—short maturities under five percent—during the world financial crisis of 1997–1998. Since then, short-term rates—following several interest rate hikes by the Federal Reserve during 1999 and 2000—have risen to their highest level since 1991; the 91-Day Treasury Bill discount rate was 5.7 percent in late December. The yield on 10-year Treasury notes also rose in 1999, but it retreated in 2000; in late December, it was about $\frac{1}{2}$ percentage point below the short-term rate. The Administration projects that the 10-year rate will average near 5.8 percent—its level of mid-November—throughout the forecast period. Meanwhile, the short-term rate is projected to decline gradually to around 5.3 percent, which would restore the usual upward-sloping yield curve. The outlook is complicated by the ongoing reduction in Federal debt, which gradually removes Government bills, notes, and bonds from the market.

Trend Projections: Except in the near term, the projections shown in Table II–1 are not a precise year-to-year forecast; instead, they reflect the average behavior expected for the economy over the medium term. In some years, growth could be faster than assumed; in other years, it could be slower. Similarly, inflation, unemployment, and interest rates could fluctuate around the projected values. If the assumptions hold on average, however, they should provide a prudent basis for budgeting. If fiscal and monetary policies remain sound, the economy could continue to

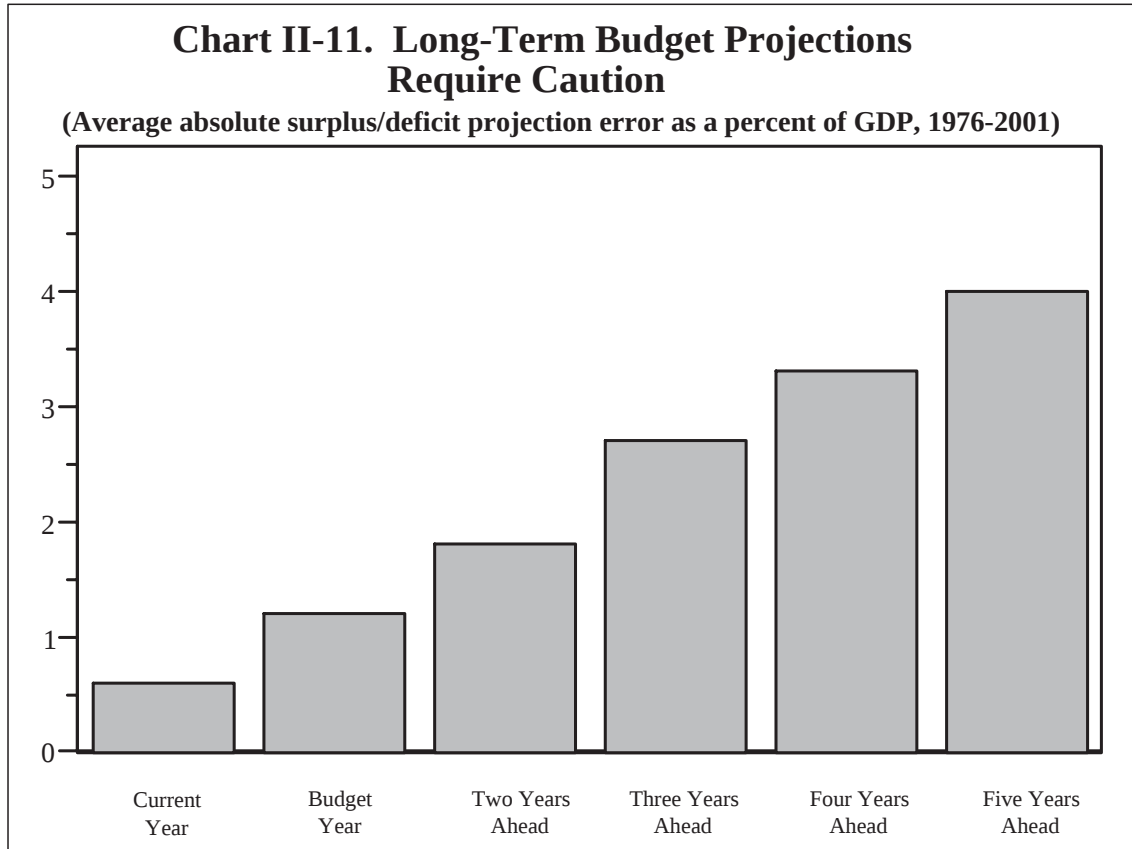
outperform these relatively conservative projections, as it has for the past several years.

The Budget Outlook

The Near-Term Outlook: The Administration projects continuing budget surpluses in 2001 and subsequent years. On current-services assumptions, the unified surplus is projected at \$256 billion in 2001 and \$277 billion in 2002. The on-budget surplus, \$86 billion in 2000, is projected to be \$98 billion in 2001. By 2011, it could reach \$479 billion.

These projections are imprecise, and if experience is any guide, they could err by large margins. The future is uncertain, and the more distant the projection, the greater the uncertainty. Over the history of five-year budget projections (first required by the Congressional Budget Act of 1974, and thus starting with the 1976 Budget), every Administration has made substantial errors. Chart II-11 shows that the average forecast error for the deficit/surplus (regardless of

sign, expressed as a percentage of GDP) of the fiscal year already in progress was 0.6 percent of GDP (in today's terms, over \$60 billion—not a trivial sum for a year already one-fourth over). The average error for the coming year was twice as large—1.2 percent (or more than \$120 billion today). Errors grew even larger as the projection was more distant, averaging 4.0 percent of GDP (more than \$400 billion today) for the five-year ahead (the most distant) projections. (The Clinton-Gore Administration's errors were only slightly smaller than those of other Administrations, though unlike all the others, we have run smaller deficits and larger surpluses than we projected.) Such enormous uncertainty about budgets just a few years in the future should influence policymakers' decisions about expensive, long-term commitments on the basis of mere projections—especially now, when the public debt, though declining, is still about the same percentage of GDP as in 1985; and



when the baby-boom generation is just seven years away from beginning to collect Social Security benefits.

The Long-Term Outlook: Though long-run budget projections are inherently uncertain, they can warn of potential problems, which may be more easily solved if addressed sooner. In the 1990s, policymakers increasingly focused on long-range projections, some looking as far as 75 years ahead—especially for the budget effects of population aging and reforms to Social Security or Medicare.

Prior to the 1993 Clinton program, the Federal deficit was projected to spiral out of control in this decade. The outlook improved after OBRA, although deficits continued for a time. Following the passage of the BBA in 1997, a unified budget surplus was projected beginning in 2002, and for about 20 years; even so, the deficit was expected to return in the long run.

Since 1997, the economy and the budget have performed much better than projected when the BBA was passed. Projections of publicly held Federal debt have steadily declined. Lower interest payments have rein-

forced the improvement of the budget, and have significantly extended the long-run surplus projections. Still, the long-term current services baseline is a mechanical extrapolation of the budget implications of current law, and thus is not intended to reflect likely policy actions. Moreover, the range of uncertainty around such projections is very large. Under reasonable alternative assumptions, the budget could return to deficit within a few years following the retirement of the baby-boomers. The underlying demographic pressures are formidable, and if the demographic or economic outcomes prove to be less favorable than assumed here, the surplus would be threatened. (See *Budget of the United States Government, Fiscal Year 2001: Analytical Perspectives*, chapter 2; and *Economic Report of the President*, January 2001, chapter 2.)

The favorable long-term budget results in these projections can be realized only with prudent policy—choosing continuing reductions in outstanding debt, rather than expensive tax cuts or spending increases—while sustaining private saving, investment, and productivity growth.

III. HIGHLIGHTS FROM FY 1994 TO FY 2001

1. INTRODUCTION

This section discusses achievements of the Clinton-Gore Administration on a function-by-function basis. Other sections of this document discuss America's dramatic economic resurgence during the last eight years, the elimination of the budget deficit, and growing budget surpluses that have created an opportunity to extend the life of the Social Security and Medicare trust funds and offered the hope of paying down the debt with prudent budget policies. The past eight years have also seen remarkable achievements in areas such as education, health care, help to working families, crime fighting, science, the environment, national security, foreign affairs, and the efficient and effective management of the Federal Government.

SELECTED HIGHLIGHTS OF THE PAST EIGHT YEARS

Program Achievements

Education and Training: This Administration's dedication to improving educational and employment opportunities for all Americans is reflected in the nearly 80-percent increase in Federal funding for education and training programs since 1993 and in major initiatives to improve and expand those programs. The Administration restructured elementary and secondary education programs to focus on school-wide and school-system reforms based on challenging academic standards for all students, including initiatives to reduce class size, establish after-school programs, improve reading abilities, and renovate crumbling schools. The doors to college were opened to more students through increased Pell Grants and Work-Study opportunities, reduced student loan costs, new tax credits for postsecondary education, and new programs to help disadvantaged students prepare for and succeed in college. Workers received improved job training services thanks to the Workforce Investment Act, which called for a streamlined, customer-focused job training system in each community. Finally, the Administration established the Corporation for National and Com-

munity Service and created the AmeriCorps program to engage Americans of all ages in community-based service and to help students who serve to pay off their student loans.

Rewarding Work: Perhaps one of the greatest legacies this Administration will leave is the effort to "end welfare as we know it" with policies that expand supports for low-income working families. From rewarding States for moving welfare recipients into jobs and encouraging businesses to hire people from welfare rolls, to expanding the Earned Income Tax Credit and improving health coverage through Medicaid and the State Children's Health Insurance Program; and from proposing and signing the Family and Medical Leave Act to more than doubling funding for child care, the President has led the Nation in a holistic effort to reform welfare and support working families. By maintaining an historic economic recovery, this Administration's efforts led to falling welfare rolls, lower unemployment rates and most noteworthy, lower poverty rates. Through significant, targeted funding increases and effective policies, the Administration has demonstrated its commitment to improving the income security of low-income Americans.

Social Security: Since 1993, the Administration has proposed a series of legislative and management initiatives that have helped to prepare Social Security for the baby boom generation. President Clinton's 1998 challenge to "save Social Security first" made the continued solvency of the Social Security program a national priority and generated bipartisan agreement for substantial debt reduction over the next decade to prepare the Nation for the needs of the future. Following the Social Security Administration's (SSA's) transition to an independent agency in 1995, the Administration encouraged SSA to promote program improvements responsive to a changing population, enhance customer service, and emphasize public education efforts. In 1996, the Administration worked with the Congress to develop a dedicated funding source to enable SSA to improve the integrity of the disability

programs by eliminating a backlog of continuing disability reviews.

Medicare: Throughout the past eight years, this Administration has achieved the longest Medicare Trust Fund solvency in a quarter century. At the beginning of the Administration, Medicare was projected to become insolvent in 1999. Due to the Administration's efforts, the Medicare Trust Fund solvency has been extended by a total of 26 years. These actions included support of legislation, such as the Health Insurance Portability and Accountability Act of 1996 and the Balanced Budget Act (BBA) of 1997, as well as important administrative actions, such as expanded coverage of routine patient care costs related to clinical trials. The Administration's leadership has strengthened the Medicare Trust Fund and has laid a strong foundation for future Medicare reform.

Natural Resources and the Environment: The Administration achieved the cleanest environment in a generation amidst an historic economic expansion, despite serious environmental problems facing the Nation in 1993. Among the President's greatest accomplishments was winning legislation that will provide \$12 billion over six years in unprecedented, dedicated funding for the conservation of America's land and coastal resources. He also protected more land in the lower 48 States under the Antiquities Act than any other President. The Administration also more than doubled funding to combat global climate change through the Climate Change Technology Initiative, almost doubled funding to address the Nation's major remaining water quality problems through the Clean Water Action Plan, and developed critical rules to implement the Plan. In addition, the Administration cleaned up almost four times as many Superfund sites as in the previous 12 years, reduced wetlands loss by 80 percent, and fought back numerous anti-environmental legislative riders that would have traded hard-won environmental safeguards for short-term special-interest gains.

Science and Technology: In 1993, President Clinton took office committed to fostering progress and economic growth by expanding investment in civilian research and development (R&D). The President's economic strat-

egy relied upon the critical element of investing in people and proposed targeted investments to help the Nation compete in the global economy and improve our quality of life. While aggressively pursuing priority research areas, the Administration maintained a balanced portfolio of research across agencies and disciplines. The Administration's investments sustained and nurtured America's world-leading science and technology enterprise, through pursuit of specific agency missions and through stewardship of critical research fields and scientific facilities; strengthened and expanded access to high quality science, mathematics, and engineering education, and contributed to preparing the next generation of scientists and engineers; focused on activities that required a Federal presence to attain national goals, including national security, environmental quality, economic growth and prosperity, and human health and well being; and, promoted international cooperation in science and technology that strengthened the advance of science and achievement of national priorities. In keeping with the emphasis on civilian R&D, the Administration increased the share for civilian R&D investments, from 42 percent in 1993 to just over 50 percent in 2001. During this same period, total Federal funding for R&D increased from \$72.5 billion to \$90.2 billion, a 24-percent increase, while defense R&D funding received a more modest increase of seven percent, from \$42.2 billion to \$45.0 billion.

Administration of Justice: The Administration's criminal justice policies have helped push crime rates to their lowest levels in 25 years, including rates of youth violence and violence against women and minorities. The Community Oriented Policing initiative has funded over 100,000 additional community police officers to make our streets safer, and has provided local police departments with critical equipment. Increased attention to combating gun-related violence at the Federal, State, and local level reduced the number of violent crimes committed with guns between 1993 and 1998 by 35 percent. Federal law enforcement agencies have adapted to new threats, including the criminal misuse of new technologies. Our civil rights laws are being vigorously enforced by agencies that now receive the

funding they need to protect Americans from discrimination.

Economic Development and Housing Assistance: In a bipartisan effort to revitalize impoverished rural and inner-city areas, the Congress authorized and funded the Administration's New Markets initiative in December 2000. This initiative, administered by the Small Business Administration, will provide \$250 million in public and private capital for rural and urban small business investments, plus technical assistance and mentoring services for aspiring entrepreneurs. In addition, a 30-percent tax credit will spur investment in a wide range of businesses. The New Markets initiative complements the Administration's Empowerment Zones (EZs), established in 1994 to challenge communities with high unemployment and poverty rates to develop and implement innovative strategic plans for revitalization. Areas designated as EZs offer tax benefits for businesses, waivers from Federal regulations, and grants for job training and other services. The thirty-one urban and rural areas designated as EZs have created over 120,000 new jobs since 1993, and leveraged more than \$12 billion in additional public and private sector investment in community revitalization efforts. Nine new EZs were authorized for 2001, bringing the total to forty. The Administration's efforts to expand economic opportunity for low-income families also have included increasing the supply of portable housing vouchers by over 250,000 from 1993 through 2001. Housing vouchers help families improve their housing conditions and lower their rent payments, and they also help working families or families moving from welfare to work relocate to areas of greater economic opportunity or move closer to schools, child care, or other services.

Agriculture: The Administration strongly supported family farms, fighting to open foreign markets to U.S. commodities. The NAFTA, GATT, and China trade agreements secured by the Administration will increase farm income significantly for years to come. The Administration championed better risk management for farmers, and led the successful efforts in 1994 and 2000 to overhaul the Federal crop insurance program to provide higher coverage and better value for agricultural producers. Through significant increases

in the Department of Agriculture's conservation programs, the Administration demonstrated that farm programs can both improve the environment and boost farm income. In addition, the Government reformed the Nation's nearly century-old meat and poultry inspection system, to deploy food safety resources based on science and risk.

International Affairs: The Administration's international affairs budget policy has responded to the increased demands of globalization in the new post-Cold War world. The Administration implemented the Uruguay Round, NAFTA, and other major agreements to liberalize trade and financial markets, and aided in the construction of a new global financial infrastructure to support financial stability and promote economic growth. It helped spur recovery from financial crises in Mexico and Asia through carefully targeted use of the Exchange Stabilization Fund, and by securing new resources for the International Monetary Fund. The Administration mobilized resources to fight transnational problems, such as the spread of HIV/AIDs and increased threats to the global environment. It improved the security of Americans at home and abroad by protecting U.S. embassies and fighting international terrorism. As a critical element of its effort to pay arrears owed to the United Nations, it successfully concluded negotiations to establish a new scale of assessments for United Nations dues that will reduce the U.S. share of the UN budget and result in substantial future budgetary savings. Finally, the Administration responded forcefully to natural disasters from Central America to sub-Saharan Africa and manmade conflicts from Bosnia and Kosovo to Indonesia, and provided critical support to countries attempting the difficult transition to democracy. As a result of these policies and programs, the United States continues to play the preeminent role in the post-Cold War world.

National Security: Since 1993, the Administration has ensured the Nation's security by sustaining a commitment to support the best equipped, best trained, and best prepared fighting force in the world. The Nation's strong military posture provided the foundation which enabled American leadership to promote peace, freedom, and prosperity around the globe. This was demonstrated by our efforts in Bosnia and

Kosovo and through the success of humanitarian and other contingency operations. The Clinton-Gore Administration provided the necessary defense resources to recruit and retain first-rate personnel, maintain a high quality of life for military personnel and their families, enhance military readiness and operational capabilities, fund current contingency operations, and prepare for the future by modernizing weapons systems to maintain the Nation's technological advantage into the 21st Century. The global danger from nuclear weapons and other weapons of mass destruction was reduced by the Administration's efforts to shape the strategic landscape through deterrence, arms control agreements, continued enforcement of UN sanctions on Iraq, and threat reduction assistance programs in Russia and other states of the former Soviet Union. The reliability of the Nation's nuclear stockpile was maintained and advances were made in the cleanup of radioactive waste from fifty years of weapons production. Emphasis was also placed on building awareness of, deterring, and meeting the challenge from emerging unconventional threats such as terrorism and computer attack. The Clinton-Gore Administration's national security efforts in all of these areas has shaped a defense posture well adapted to the post-Cold War world with military forces positioned to meet the challenges of a new century.

A Falling Interest Burden: In 1993, the Administration inherited a large and growing debt, and the prospect of large and growing budget deficits for many years into the future. Net interest outlays had grown from \$14.4 billion (or 1.4 percent of the Gross Domestic Product, or GDP) in 1970 to \$198.7 billion (or 3.0 percent of GDP) in 1993, and were projected to grow still further without a change in policy. Largely as a result of fiscal policy actions under this Administration and the strong economic performance over the past eight years, the long, upward trend for net interest has ended. In dollar terms, net interest began to decline in 1998 with the first balanced budget in recent years. As a percentage of GDP, net interest will fall from 3.0 percent in 1993 to an estimated 2.0 percent in 2001, a reduction of one-third. As a percentage of total outlays, net interest will fall from 14.1 percent in 1993 to 11.2 percent in 2001, free-

ing resources for other purposes. Moreover, the prospect of continuing surpluses implies that net interest outlays will continue to fall toward zero over the next few years. This improvement is one of the most important reasons for the projected long-term stability of the budget, and is a vital foundation for the Nation's preparation for the aging of the population, including the impending retirement of the baby-boom generation.

Management Improvement

The last eight years have seen a dramatic improvement in the management of the Federal Government. The Administration not only balanced the budget and invested in key priorities for the future, but took important steps to help the Government operate more effectively and efficiently. Management functions, such as use of information technology, procurement, financial management, statistics and regulatory reform, are the essentials of governmental operations, whatever an organization's missions or functions may be. Doing them very well rarely garners attention; failing to do them can destroy program and policy effectiveness and public trust as certainly as bad policy decisions or inadequate program implementation. Because the Administration has sought to integrate budget and management, many significant management accomplishments are addressed in the function-by-function chapters that follow (examples include human resources in Chapter 18, "General Government," and energy efficiency in Chapter 5, "Energy"). However, there are also a number of Government-wide efficiencies and improvements that are worth noting.

Information Technology (IT): Over the past eight years, the Administration has emphasized the importance of IT in creating a Government that is more accessible and responsive to citizens. Early efforts focused on the management of specific agency systems—emphasizing off-the-shelf technology, open architecture, and modular development. The bipartisan Clinger-Cohen Act codified Administration policy by tying IT to agency budget and strategic planning decisions, and created the position of Chief Information Officer in each agency. To aid agency implementation of the Clinger-Cohen Act, OMB issued a Memorandum titled "Funding Information Systems

Investments,” commonly referred to as “Rainey Rules”, which established decision criteria to evaluate all major information system investments proposed in the President’s budget.

The Administration’s foremost management objective at the end of the decade was to navigate the year 2000 (Y2K) computer conversion, probably the single largest technology management challenge in history. The Federal Government’s Y2K efforts exceeded all expectations—resulting in a remarkably trouble free roll-over to the year 2000. In addition, under the direction of the President’s Council on Year 2000 Conversion, the Federal Government also worked with the private sector, State and local governments, and international organizations to solve the problem.

The Administration has also focused on other important IT initiatives, including capital planning, computer security, and data sharing. In addition, a Presidential Directive led to specific, major accomplishments in the arena of electronic government. Every agency now offers key information and critical services online, and more are launched each week. Moreover, the Administration is working across agencies to bring transformational change on a Government-wide basis.

In September 2000, the Administration launched *www.firstgov.gov* to provide the public with a single, customer-focused web site, where it can find every Federal Government on-line resource by topic or by agency. Through FirstGov, citizens can search over 27 million web pages in less than one-quarter of a second, 24 hours a day, seven days a week. People can apply for student loans, find new jobs, find the latest health research, and more. The site safeguards communications and transactions with the Government, protects privacy, and leverages a partnership with the private sector to maximize innovation and usability.

Ensuring privacy and security are essential to fully exploiting the potential of the Internet for electronic government and electronic commerce. With respect to privacy, the Administration has worked aggressively, particularly on privacy safeguards for Federal web sites. As a result, virtually all major points of entry to agency web sites provide notice

to visitors about what information is collected, why the information is collected, and what agencies will do with it. With respect to security, the Administration has developed a Public Key Infrastructure that uses digital signatures to ensure that recipients of online information can authenticate senders in a reliable way; this infrastructure also enables the public to use common digital signatures across agencies. Well over 100,000 digital signatures have already been issued, and over the next several months this number will grow substantially.

Procurement: The Administration has reinvented the way the Government buys approximately \$200 billion annually in goods, services, and construction, concentrating on results rather than process, focusing on customer satisfaction, and giving people on the front lines the opportunity to experiment with innovative ways to do their jobs. Working with the Congress, major legislation was enacted that simplified procedures for acquisitions, promoted the use of commercial items, eliminated many record-keeping and reporting requirements, emphasized past performance and best value in contractor selection, and removed barriers in negotiations.

The Administration also introduced other reforms. For example, the Government began using performance-based contracting for services, holding agencies accountable for cost, schedule, and performance of major acquisition programs, and using alternative dispute resolution methods to reduce the number of costly and time-consuming bid protests. Credit cards were introduced allowing Government employees to purchase over 90 percent of all supplies without using contracting offices. Federal supply schedules and multi-agency contracts were established allowing requirements across agencies to be combined and speeding up the acquisition of products and services. Share-in savings contracts were created to allow industry to use its investments and creativity to reduce energy costs and to be paid out of the savings.

Other Government-wide successes include the development of a set of core acquisition system performance measures to enable, for the first time, comprehensive Government-wide and agency assessments of progress

toward providing best value to taxpayers. In addition, the Administration has established *www.fedbizopps.gov*, a single point of entry to enable all businesses to gain easy access to contracting opportunities; *www.pronet.sba.gov*, to promote small business opportunities; and the GovSales section of *www.financenet.gov*, to provide access to all Government sales of financial assets, real property and personal property.

Financial Management: Over the last eight years, there has been an extraordinary transformation in Federal financial management. Eight years ago, only a few agencies routinely prepared and issued audited financial statements. Now virtually all agencies issue annual audited financial statements and more than half of the 24 largest agencies received clean audits in 1999, the fourth year of such reporting. (By comparison, it took the States over a decade to achieve this result.) Similarly, there was no Government-wide audited financial statement in the early 1990's; this year marks the third year of an annual Government-wide financial statement. In 1993, the Federal financial community did not have a set of Government-wide accounting standards. The creation of the Federal Accounting Standards Advisory Board (FASAB) led to the development and issuance of a complete set of basic accounting standards and concepts in 1996. In October 1999, as validation of these efforts, the American Institute of Certified Public Accountants recognized FASAB standards as "generally accepted accounting principles". Recognition of FASAB standards by an independent, internationally-recognized audit standard-setting authority marks a significant milestone. After several years of pilot activities, agencies now can combine financial and performance reports, providing for the first time a clear picture of what agencies accomplish and at what cost.

Agencies have also begun to install and use modern, integrated financial systems that combine accounting requirements with program performance, allowing for improved reporting and accountability. These systems are being designed to integrate accounting requirements with program management needs, allowing for more timely and useful information to managers. For example, CFOs are maximizing the use of the Internet for

credit and debt management programs to conduct secure, private, and authenticated Internet transactions for debt management by using electronic signature technology, including digital signatures or Personal Identification Numbers (PINs), where appropriate. In the Federal grants area, OMB and agencies are making it easier for State, local, and Tribal governments and non-profit organizations to apply for Federal grants and, as recipients, report their progress. The Federal Commons initiative—a project to establish a single point of entry online for Federal grant programs—is being introduced across Federal grant-making agencies.

Regulatory Reform: The Administration has continued its efforts to improve the transparency and analytical bases of the regulatory process. In 1993, the President issued Executive Order No. 12866 setting forth the guiding principles and the process that the Administration would follow in issuing new regulations and reforming existing rules. The Executive Order requires that the agencies fully assess the costs and benefits of all alternatives, including not regulating, and selecting the alternative that maximizes net benefits (unless a statute requires another approach). The Executive Order also requires the agencies to submit their regulations to OMB for review and coordination with other interested agencies before publication. A major emphasis of this program was transparency and openness to the public, including small businesses and State, local and Tribal governments.

On March 22, 2000, OMB issued Guidelines to Standardize Measures of Costs and Benefits and the Format of Accounting Statements. The guidelines lay out the principles and methodology the agencies are to use in estimating and presenting the required cost-benefit analyses of the their regulations. OMB has also submitted to the Congress for the last three years the Report to Congress on the Costs and Benefits of Federal Regulations.

The Administration's efforts to improve regulation have produced significant beneficial results. OMB's Report to The President On the Third Anniversary of Executive Order 12866: More Benefits Fewer Burdens and, for the last three years, the Report to Congress

on the Costs and Benefits of Federal Regulations document some of these improvements.

Statistical Policy and Programs: During the past eight years, significant strides have been taken to improve the Nation's statistics. Most visibly, the 2000 Census was completed on time, under budget, and with higher mail response than that of a decade ago. In addition, the American Community Survey was initiated to provide accurate and up-to-date local area information that will be used by the Federal Government to allocate close to \$200 billion in Federal funds annually.

Obsolete standards that underlie our key economic and demographic statistics were revised. In cooperation with Canada and Mexico, the 1997 North American Industry Classification System (NAICS), based on how an establishment produces its products, was developed and introduced to replace the Standard Industrial Classification, and an enhancement of NAICS for 2002 was completed. The Standard Occupational Classification, which will be used by all Federal agencies that publish occupational data, was completed in 2000. Major revisions to the Government-wide Standards for Maintaining, Collecting, and Presenting Federal Data on Race and Ethnicity were issued in 1997, and implementation guidance based on additional research and analyses subsequently was issued for public comment. At the end of 2000, the Administration adopted simplified and expanded standards for defining Metropolitan and Micropolitan Statistical Areas for use in collecting, tabulating, and publishing Federal statistics.

In 1997, OMB issued the Federal Statistical Confidentiality Order to ensure that statistical information will not be used in any Government actions against respondents. The Administration also gained bipartisan support for its legislative proposal to harmonize statutory protections for the confidentiality of statistical data and permit sharing of data for statistical purposes among designated agencies. These efforts are designed to bolster the confidentiality afforded statistical information provided by the public.

To improve the relevance, accuracy, and timeliness of the Nation's key statistical indicators, a number of critical programs were

improved. These efforts included: formulating a strategic plan for maintaining and improving the National Income and Product Accounts; revising the Consumer Price Index (CPI) to reflect changes in the geographic distribution of the population and in consumers' buying habits and make the CPI a more accurate and reliable reflection of economic conditions; expanding service sector output, price, and productivity measures; and integrating health surveys to capture changes in health care and welfare.

Finally, two reports that bring together key statistics from a variety of agencies were inaugurated—America's Children: Key National Indicators of Well-Being, an annual monitoring report on the status of America's children, and Older Americans: Key Indicators of Well-Being, a periodic Federal report that describes the status of the Nation's older population; in addition, more than 100 agencies across the Government are now partners in FedStats (www.fedstats.gov), the one-stop-shopping Internet service that greatly facilitates access for users of Federal statistics.

Program Performance

The last eight years have also seen a much-needed emphasis on program performance for analyzing and funding Federal programs, through this Administration's commitment to the Government Performance and Results Act (GPRA) of 1993. This legislation was complemented by the Administration's National Performance Review initiative, which was announced in September 1993 and led by Vice President Gore. This effort later became the National Partnership for Reinventing Government. Agencies continue to improve the quality and scope of their performance data, and this information is increasingly important in budget decisions, program management, and organizational accountability.

Prior to 1993, very few Federal agencies had ever prepared long-range plans; their performance measures usually were limited to workload, and hidden from public view; and reporting on what programs actually accomplished was rare. By the end of 2000, all 14 Cabinet departments and about 85 independent agencies had prepared two cycles of strategic plans, which are prepared every

three years, and four annual plans; and had completed the first set of annual reports that compare actual performance against goals set in the annual plans. Collectively, these plans and reports set measurable goals and objectives for every Government function and major program. All plans and reports produced by agencies under GPRA are sent to the Congress, and are available to the public.

In 1993, the Administration initiated the National Performance Review, an eight-year effort that focused on creating a Government that works better, costs less, and gets results that Americans care about. This effort has streamlined the Government work force, eliminated obsolete programs and agencies, empowered its employees to cut red tape, and used partnerships to get results. The payoff included:

- elimination of 250 obsolete programs (such as the Tea Tasting Board) and agencies (like the Interstate Commerce Commission);
- a reduction of 377,000 employees during the course of the Administration, resulting in the smallest work force since the Eisenhower years;
- the creation of more than 4,000 customer service standards, and the use of private-sector customer satisfaction measures, which now show the Federal Government is almost equal to the service sector in satisfaction levels;
- the use of more than 350 reinvention labs to test innovations and more than 850 labor-management partnerships covering two-thirds of the work force;
- a reduction of more than 640,000 pages of internal rules; and,
- partnerships, such as one between EPA and the 1,300 companies in the toxic chemical industry, which reduced emissions by 50 percent in four years—faster than if EPA had used the traditional rule-making process.

During this Administration, public trust in the Federal Government nearly doubled in the course of only four years, rising from an all-time low of 21 percent in 1994

to 40 percent when last measured in 1998 by the University of Michigan.

The performance of the economy, the increased emphasis on performance in Government programs, and the achievements discussed in the individual function-by-function chapters that follow demonstrate that the American public can be proud of its Government's performance over the past eight years.

THE FUNCTION-BY-FUNCTION CHAPTERS

Presentations by “budget function” are a result of long-standing custom and legislation. The functions are categories that emphasize what the Federal Government seeks to accomplish, rather than the agency conducting the activity. The functions are designed to inform the American people about the ultimate purpose of the spending according to broad categories. The function categories are also used by the Congress in its review and analysis of the budget.

Table 1–1 and the tables at the beginning of each chapter present data by function for 1993, an estimate for 2001, and the corresponding increase or decrease. Table 1–1 displays a category for allowances, which includes two items for 2001. The first allowance is for a 0.22 percent across-the-board reduction required by law in discretionary budget authority for agencies other than the Department of Defense. The reduction for the Department of Defense is included in the estimate for the National Defense function. The second allowance is for mandatory outlays and reflects legislation to compensate non-Social Security beneficiaries for the loss in benefits caused by shortfalls in cost-of-living increases due to an error in the calculation of the CPI in 1999. The adjustment for Social Security is included in the Social Security function.

The tables display data for the following Federal resources:

Discretionary Budget Authority: The Budget Enforcement Act (BEA) of 1990 defines discretionary budget authority as spending authority controlled by annual appropriations acts. Most funding for Federal agencies and some grants to State and local governments

are discretionary. The BEA limits the amount of discretionary budget authority that can be appropriated for a fiscal year. In aggregate, this spending represents about one-third of total Government spending.

Mandatory Outlays: The BEA defines mandatory outlays as those controlled by laws other than annual appropriations acts. Mandatory outlays are primarily for benefit programs for individuals, such as Medicare and Medicaid. Mandatory outlays, including outlays for net interest, make up about two-thirds of total Government spending. Unlike discretionary spending, the BEA does not limit the amount of mandatory outlays. Instead, the Act requires that legislated changes for mandatory outlays and receipts combined cannot increase the deficit or reduce the surplus.

Credit Activity: The credit data include direct loan disbursements and guaranteed loans.

Direct loan disbursements. Direct loan disbursements are disbursements by the Government to a non-Federal borrower that require repayment with interest. The amounts shown in the tables do not include repayments. The largest categories of direct loan disbursements are by the Department of Agriculture to assist farmers, and by the Department of Education to assist students attending higher education.

Guaranteed loans. Guaranteed loans are loan disbursements made by a non-Federal entity (e.g., a private bank) where the Government guarantees repayment of all or part of the principal or interest. The largest categories of guaranteed loans are to increase

homeownership and to help low-income families afford suitable housing. Most guaranteed loans are classified in the function chapters for Commerce and Housing Credit, and for Veterans Benefits and Services.

Tax Expenditures: Tax expenditures are revenue losses due to the preferential provisions of the Federal tax laws, such as special exclusions, exemptions, deductions, credits, deferrals, or tax rates. They are alternatives to other policy instruments, such as spending or regulatory programs, as means of achieving Federal policy goals. Because of interactions across provisions, the estimates are only rough approximations of the total revenue loss for each function and for the Federal Government. Most tax expenditures are classified in the Commerce and Housing Credit function and the Income Security function.

In 1993, this Administration achieved a major expansion of the Earned Income Tax Credit, which reduces taxes for working families. The Administration also achieved a child care tax credit of \$500 per child for low- and middle-income families in the BBA of 1997. The Act also added significant tax expenditures for education, including the Hope and Lifetime Learning credits and Educational Individual Retirement Accounts (IRAs), and expanded retirement incentives by increasing traditional IRA limits and adding Roth IRAs. Capital gains received greater preferences, and most gains on owner-occupied home sales were exempted from tax. There were also numerous other changes that affected health care, energy, community development, science and technology, and other functional areas.

Table 1-1. Federal Resources by Function
(In billions of dollars)

Function	1993 Actual	2001 Estimate	Change: 1993-2001
NATIONAL DEFENSE:			
Spending:			
Discretionary budget authority	276.1	311.0	34.9
Mandatory outlays	-1.3	-0.4	0.9
Credit Activity:			
Direct loan disbursements		*	*
Guaranteed loans		*	*
Tax expenditures	2.1	2.2	*
INTERNATIONAL AFFAIRS:			
Spending:			
Discretionary budget authority ¹	21.2	22.7	1.5
Mandatory outlays	-4.3	-8.8	-4.5
Credit Activity:			
Direct loan disbursements	1.9	2.9	0.9
Guaranteed loans	9.5	11.1	1.6
Tax expenditures	4.5	18.1	13.6
GENERAL SCIENCE, SPACE, AND TECH- NOLOGY:			
Spending:			
Discretionary budget authority	17.2	20.8	3.6
Mandatory outlays	*	0.1	0.1
Tax expenditures	3.3	7.7	4.4
ENERGY:			
Spending:			
Discretionary budget authority	5.8	3.1	-2.7
Mandatory outlays	-1.2	-3.6	-2.4
Credit Activity:			
Direct loan disbursements	1.5	1.9	0.4
Guaranteed loans	*	*	*
Tax expenditures	2.4	2.1	-0.3
NATURAL RESOURCES AND ENVIRONMENT:			
Spending:			
Discretionary budget authority	21.4	28.8	7.4
Mandatory outlays	0.2	0.2	—*
Credit Activity:			
Direct loan disbursements	*	*	*
Tax expenditures	1.6	1.6	—*
AGRICULTURE:			
Spending:			
Discretionary budget authority	4.3	4.8	0.5
Mandatory outlays	16.1	20.4	4.2
Credit Activity:			
Direct loan disbursements	11.1	10.9	-0.3
Guaranteed loans	4.6	6.5	1.9
Tax expenditures	0.3	1.1	0.8
COMMERCE AND HOUSING CREDIT:			
Spending:			
Discretionary budget authority	4.1	2.9	-1.2
Mandatory outlays	-25.6	3.0	28.5
Credit Activity:			
Direct loan disbursements	5.0	1.7	-3.3
Guaranteed loans	79.4	229.6	150.2
Tax expenditures	160.0	254.7	94.6

**Table 1-1. Federal Resources by Function—
Continued**
(In billions of dollars)

Function	1993 Actual	2001 Estimate	Change: 1993–2001
TRANSPORTATION:			
Spending:			
Discretionary budget authority	14.0	19.1	5.1
Obligation limitation	20.4	38.5	18.1
Mandatory outlays	1.7	2.2	0.4
Credit Activity:			
Direct loan disbursements	*	0.7	0.6
Guaranteed loans .....	.....	0.5	0.5
Tax expenditures	1.8	2.2	0.4
COMMUNITY AND REGIONAL DEVELOPMENT:			
Spending:			
Discretionary budget authority	9.6	11.0	1.4
Mandatory outlays	0.8	–0.7	–1.4
Credit Activity:			
Direct loan disbursements	2.4	2.3	–0.1
Guaranteed loans	0.3	3.5	3.2
Tax expenditures	0.9	1.4	0.6
EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES:			
Spending:			
Discretionary budget authority	38.2	61.1	22.9
Mandatory outlays	13.5	10.7	–2.8
Credit Activity:			
Direct loan disbursements	2.7	19.1	16.4
Guaranteed loans	14.8	28.2	13.5
Tax expenditures	21.9	59.5	37.6
HEALTH:			
Spending:			
Discretionary budget authority	20.7	38.9	18.2
Mandatory outlays	79.8	138.9	59.1
Credit Activity:			
Direct loan disbursements	0.1	.....	–0.1
Guaranteed loans	0.3	*	–0.3
Tax expenditures	53.3	99.8	46.5
MEDICARE:			
Spending:			
Discretionary budget authority	2.8	3.4	0.5
Mandatory outlays	127.9	218.8	90.9
INCOME SECURITY:			
Spending:			
Discretionary budget authority	31.9	39.5	7.6
Mandatory outlays	175.9	213.0	37.1
Credit Activity:			
Direct loan disbursements	0.1	*	–0.1
Guaranteed loans .....	.....	0.1	0.1
Tax expenditures	74.2	131.9	57.8
SOCIAL SECURITY:			
Spending:			
Discretionary budget authority	2.6	3.4	0.8
Mandatory outlays	302.0	431.4	129.4
Tax expenditures	23.7	26.0	2.3

**Table 1-1. Federal Resources by Function—
Continued**
(In billions of dollars)

Function	1993 Actual	2001 Estimate	Change: 1993–2001
VETERANS BENEFITS AND SERVICES:			
Spending:			
Discretionary budget authority	16.2	22.5	6.3
Mandatory outlays	19.8	22.9	3.1
Credit Activity:			
Direct loan disbursements	2.2	1.7	–0.5
Guaranteed loans	35.4	29.5	–5.9
Tax expenditures	2.0	3.5	1.5
ADMINISTRATION OF JUSTICE:			
Spending:			
Discretionary budget authority	14.6	30.0	15.4
Mandatory outlays	0.3	0.7	0.4
GENERAL GOVERNMENT:			
Spending:			
Discretionary budget authority	11.6	14.0	2.4
Mandatory outlays	1.5	2.3	0.7
Credit Activity:			
Direct loan disbursements		*	*
Tax expenditures	37.2	71.3	34.1
NET INTEREST:			
Spending:			
Mandatory outlays	198.7	210.2	11.5
Tax expenditures	1.1	0.5	–0.6
ALLOWANCES:			
Spending:			
Discretionary budget authority		–0.6	–0.6
Mandatory outlays		0.2	0.2
UNDISTRIBUTED OFFSETTING RECEIPTS:			
Spending:			
Mandatory outlays	–37.4	–47.2	–9.8
FEDERAL GOVERNMENT TOTAL:			
Spending:			
Discretionary budget authority	512.5	636.5	124.0
Mandatory outlays	868.5	1,214.2	345.7
Credit Activity:			
Direct loan disbursements	27.1	41.2	14.1
Guaranteed loans	144.3	309.2	164.9
Tax expenditures	390.2	683.3	293.1

* \$50 million or less.

¹ Excludes \$12.1 billion for 1993 for an increase in the U.S. quota at the International Monetary Fund.

2. NATIONAL DEFENSE

Table 2-1. Federal Resources in Support of National Defense

(Dollar amounts in millions)

Function 050	1993 Actual	2001 Estimate	Percent Change: 1993-2001
Spending:			
Discretionary budget authority	276,109	311,030	13%
Mandatory outlays	-1,344	-418	-69%
Credit Activity:			
Direct loan disbursements		11	NA
Guaranteed loans		39	NA
Tax expenditures	2,115	2,160	2%

NA=Not applicable.

Since 1993, the Clinton-Gore Administration has sustained its commitment to supporting the world's strongest military force, capable of defending the United States, its citizens, and its allies, and protecting and advancing American interests and values around the world. Today, the United States is the sole remaining superpower in the world, with military capabilities unsurpassed by any Nation. The United States has sought to use that position of strength in a manner consistent with the fundamental values and ideals upon which our republic was founded. We have maintained a steadfast focus on simple goals—peace, shared prosperity, and freedom. The U.S. military, as the world's best trained and best equipped fighting force, provides the strength and leadership that serve as the foundation for regional peace and stability that allows us to share our goals with others around the globe. This has been demonstrated throughout the tenure of this Administration, most recently by the restoration of stability in Kosovo and during humanitarian relief and other contingency operations.

President Clinton took significant steps to ensure that our Nation's military is fully prepared to meet the challenges of this new century. The Administration strengthened our Nation's security by sustaining a commit-

ment to recruit, train, and equip the best fighting force that the world has ever known, one capable of defeating large-scale cross-border aggression in two distant theaters in overlapping timeframes. This was achieved by enhancing military readiness and operational capabilities, and supporting programs to take care of military personnel and their families from recruitment through retirement, including defense health programs. The Administration also prepared for the future by procuring effective and modern weapons systems and funding a strong and diverse research and development effort to maintain our technological advantage through the development of advanced weapons systems.

The Administration's efforts to shape the strategic landscape through continued deterrence, arms control agreements, such as the START agreements, and threat reduction assistance programs in Russia and other states of the former Soviet Union, has reduced the global danger from nuclear weapons and other weapons of mass destruction. The Department of Energy's (DOE's) national security program has maintained confidence in our nuclear stockpile deterrent and has significantly advanced the cleanup of radioactive waste from fifty years of weapons production.

Building a new Defense Strategy for the Post-Cold War World

The end of the Cold War left the United States armed forces with a strategy, force structure, and infrastructure no longer appropriate for the new security environment. Based on an in-depth assessment of the new security environment and rethinking of U.S. defense strategy, the Administration conducted a Bottom Up Review (BUR) in 1993 and restructured its forces to meet four key requirements:

- fight and win two nearly simultaneous major regional wars;
- conduct, in peacetime, a variety of operations short of a major regional conflict;
- maintain a strong forward presence; and,
- deter and prevent the use of weapons of mass destruction against U.S. territory, forces, and allies.

In an effort to better align U.S. military strategy, force structure, infrastructure, manning, and resource requirements, the Administration conducted the Quadrennial Defense Review (QDR) in 1997. This is the Department of Defense's (DOD's) strategic plan, which

was reviewed and approved by the President and the Congress. The QDR supported the BUR requirement to maintain the ability to fight two major-theater wars nearly simultaneously, and adopted a defense strategy of shaping the international environment to prevent conflict, responding to crises, and preparing for future threats. It also emphasized that it was in the Nation's interest to respond to small-scale contingency operations and address asymmetric threats such as information warfare, weapons of mass destruction, and terrorism. The QDR force structure is shown in Table 2-2.

Maintaining a Strong Defense

When this Administration took office, the DOD budget, as a result of the end of the Cold War, had already declined by 33 percent in real (after inflation) terms from its 1985 peak, when the drawdown started, and active military forces had been reduced by 25 percent. Today, our military forces and programs are sized to meet the threats and strategy addressed in both the BUR and QDR.

The Administration requested several significant increases in the defense budget to provide full support in the near term for

Table 2-2. U.S. Conventional Force Structure

	Cold War (1990)	2001	QDR Target (by 2003)
Land Forces:			
Army divisions (active/National Guard)	18/10	10/8	10/8
Marine Corps divisions (active/reserve)	3/1	3/1	3/1
Tactical Air Forces:			
Air Force fighter wings (active/reserve)	24/12	12+/7+	12+/8
Navy air wings (active/reserve)	13/2	10/1	10/1
Marine Corps wings	3/1	3/1	3/1
Naval Forces:			
Aircraft carriers (active/reserve)	15/1	12/0	11/1
Battle forces ships	546	317	306
Mobility Forces:			
Airlift (tactical/strategic)	513/432	526/335	478/329
Sealift (Surge/Ready Reserve Force)	69/102	67/76	78/90
Military Personnel:			
Active	2,069,000	1,382,242	1,367,600
Selected reserve	1,128,000	863,775	837,200

military readiness and quality of life, and to modernize our forces over the long term. These objectives—first outlined in the Defense Funding Initiative of December 1994—which added \$25 billion over five years—have remained the essential pillars of this Administration's defense program.

The President's approval of a six-year, \$112 billion increase for defense in the 2000 Budget furthered these efforts and represented the first long-term, sustained increases for defense programs in over a decade. That, and subsequent budget proposals, provided continued significant increases for military readiness programs to enhance our forces' ability to respond immediately to crises; build for the future by increasing funding for weapons modernization programs; and, care for our military troops and their families by further enhancing quality of life programs. These efforts help ensure that the United States will be fully prepared to meet the security challenges of the 21st Century.

In addition, the Administration has placed great emphasis on managing our defense resources more efficiently by reforming and improving the management of defense programs. The Defense Reform Initiative increased the use of competitive sourcing and privatization, adopted best business practices through acquisition reform, and eliminated excess infrastructure through base realignments and closures. Other initiatives included streamlining of the civilian work force, improving financial management practices, and implementing information technology reforms.

Ensuring the Nation's Security Through the Best Equipped, Best Trained, and Best Prepared Fighting Force in the World

Enhancing Military Readiness and Operations: Maintaining high levels of readiness has been this Administration's top defense priority. Robust funding has been provided for training, spare parts, and weapons maintenance critical to unit readiness, and for recruiting and retaining quality personnel. In addition, in an effort to monitor current and future military readiness, the Administration has undertaken efforts to improve readiness reporting systems to ensure early identification of potential problems, and allow prompt

remedial action. To meet the diverse security challenges of the 21st Century, the Administration has undertaken initiatives to transform the Army into a more deployable force, restructure the Air Force into 10 flexibly-sized air expeditionary force units, and reduce the Navy's operating costs and manning requirements through the Smart Ship Program. Greater use has also been made of National Guard and reserve forces and personnel to complement active duty forces.

Funding Contingency Operations: The U.S. military has protected U.S. interests through involvement in contingency operations such as Bosnia, Kosovo, and Iraq. To pay for these operations, the Administration consistently sought supplemental appropriations, including nearly \$4 billion in a 1999 request for Kosovo operations. These supplemental requests ensured that U.S. military forces remained at high levels of readiness as they participated in contingency operations. The Administration developed accurate cost projection methodologies which served to inform policy decisions. The Administration made special efforts to track the incremental costs of these operations, especially Kosovo, separately from traditional defense operations costs. The Administration also sought supplemental funding in advance, whenever possible, so that normal military activities would not be disrupted by diverting funds to cover contingency costs. It is true that U.S. military participation in contingency operations has been costly in terms of dollars, in part because the Congress has provided funding above the requested levels for items not directly related to these operations. However, costs of individual operations have come down as they have made progress toward their objectives. Moreover, the Administration has clearly advanced U.S. national security interests by helping to contain Iraq, stopping the bloodshed in the Balkans, strengthening the NATO alliance and demonstrating its continuing value.

Taking Care of Military Personnel and their Families from Recruitment through Retirement—including Defense Health Programs: In order to attract and retain high quality personnel and ensure that military compensation remains competitive with private sector pay, the Administration has consistently supported increases in military pay

and retirement benefits. The Administration has also provided significant enhancements to the quality of life of our military personnel and their families, including a compensation initiative to reduce service members' out-of-pocket costs for housing. This program, approved by the Congress in 2001, will reduce out-of-pocket costs for military personnel from 19 percent to 15 percent by 2001, and eliminate these costs entirely by 2005.

Additional quality of life improvements have been demonstrated by the tremendous decline in the number of military personnel on food stamps—a result of the Administration's consistent support for military pay increases. In 1991, 19,400 military personnel received food stamps; by 2000, this number had been reduced to 5,100. For 2001, the Administration submitted legislation designed to immediately eliminate military personnel dependence on food stamps by providing a military commissary benefit. Other quality of life improvements include a worldwide family support and communications program to ease the hardships of deployments and family separations, and the construction and improvement of child care centers, fitness centers, upgraded barracks, and family housing. Specifically, the Administration has moved aggressively to upgrade the inventory of Government-owned housing for military families and utilize private sector capital and expertise to provide new, modern privatized housing for military families. DOD has awarded contracts for the construction of about 5,600 housing units and issued solicitations for the construction of approximately another 22,000 units.

To reduce the costs of defense health programs, the Administration established a managed care approach to military health care known as TRICARE—now also available for Medicare-eligible military retirees for the first time. The Administration has also implemented special programs for active duty families stationed in remote areas of the country where health care may not be available.

Preparing for the Future by Modernizing Weapons Systems: The U.S. military is the best equipped fighting force in the world. Over the past eight years, the Administration has strongly supported a robust modernization program focused on the most advanced tech-

nologies to incorporate in future systems. This effort is critical to maintaining military forces capable of deterring and winning wars and successfully executing all contingency missions that may arise. Weapons modernization, including procurement of new systems, upgrades to existing systems, and development of new technologies to incorporate in future systems, has been a high priority for this Administration. The Administration's efforts in developing and procuring new systems have positioned the U.S. military to continue its unrivaled military superiority well into the 21st Century, as the discussion that follows highlight.

- **Ground Forces:** Over the past eight years, the Army developed new systems to improve warfighting capabilities, such as the Comanche helicopter and the Crusader howitzer, and upgraded existing systems such as the Apache helicopter and the Abrams tank to enhance operational readiness and improve capabilities. In addition, both the Army and the Marine Corps have developed a new light weight 155mm howitzer. The hallmark of the Army's modernization effort is its plan to transform itself into a more mobile and lethal force. The Army plans first to field a medium weight force between now and 2007 to provide greater combat power and mobility to units that deploy to hostile areas in the early stages of a conflict or to peace enforcement operations. In the long term, the Army plans to field an "objective force" that is lighter and more lethal than the current force by developing a Future Combat System (FCS). Ultimately, Army transformation will exploit technology advances anticipated in the FCS along with new operational concepts and organizational structures to maintain its battlefield superiority.

The Administration has funded the cornerstones of the Marine Corps' modernization program—the V-22 tilt-rotor aircraft and the Advanced Amphibious Assault Vehicle—to significantly enhance capability as well. Both programs, developed over the course of the last decade, will replace aging helicopters and tracked vehicles and increase the Marines' ability to execute their ship-to-shore and cross-country

movements with greater speed, range, and payload.

- **Naval Forces:** Since 1994, the Administration has funded several new classes of ships that will ensure U.S. naval superiority far into the future. These new classes include the LPD-17 amphibious ship, the Virginia Class attack submarine, and a new auxiliary support ship. The Administration also fully funded continued procurement of Nimitz class nuclear aircraft carriers, the backbone of the Navy's fleet, as well as Seawolf attack submarines, and DDG-51 class destroyers. The Administration provided funds to develop new technologies that will lead to procurement of next-generation systems including a new design nuclear aircraft carrier and the next generation surface combatant, known as DD-21, that will serve the Navy well into this century. The Administration has also supported programs that augment the fleet's warfighting capabilities and enable more cost-effective operation. Initiatives, such as Cooperative Engagement Capability and the Smart Ship program, take advantage of advances in information technology to deliver improved combat capabilities to our Navy while also reducing personnel and operations costs.
- **Tactical Aviation Forces:** Aviation force modernization has been an important part of the Administration's modernization program from the start. As a result of the President's efforts, the Navy's F/A-18E/F attack fighter and the Air Force's F-22 fighter are now in production, and the Joint Strike Fighter, a low-cost, stealthy, multiservice attack aircraft, is entering advanced development. These aircraft will ensure that U.S. troops will never have to fight under threat of enemy air attack.
- **Mobility Forces:** The Administration has aggressively pursued modernization of DOD's strategic airlift and sealift forces, which are vital to transporting U.S. forces where they are needed anywhere in the world. The Administration corrected serious problems it inherited in the C-17 airlift aircraft program and put the program on track. Recent operations in the Balkans proved the C-17's versatility in performing

a variety of airlift missions. The Department plans to purchase additional C-17s in coming years to ensure that U.S. mobility forces possess the maximum possible flexibility with which to face the uncertain world of the future. In addition, the Administration provided funding that enabled the Air Force to initiate a C-5 modernization program to ensure that they are capable of meeting the projected airlift requirements; and it funded procurement of a new class of sealift ships intended to expand the ability to transport large quantities of equipment around the world.

- **Tactical Munitions:** The Administration has pursued a munitions investment strategy to develop and procure weapons with revolutionary capabilities—such as precision accuracy, all-weather performance, U.S. Global Positioning System (GPS) guidance, and increased standoff range. America's role in NATO's victory in the Kosovo air war showcased the success of this strategy. The Joint Direct Attack Munition (JDAM), a GPS guidance kit which inexpensively transforms unguided bombs into accurate weapons with all-weather capability, is a revolutionary munition first procured during this Administration; the Air Force used JDAM to great effect in Kosovo. The Administration requested funds to improve the Navy's Tomahawk cruise missile, a "weapon of choice" against high-value, heavily-defended targets. The newer Tactical Tomahawk version will feature a number of improved capabilities, including in-flight re-targeting. The military Departments also initiated a mid-range Joint Air-to-Surface Standoff Missile which is now under development.
- **Space Systems:** The Administration made significant investments in space systems that are critical to supporting military operations worldwide. These systems will enhance military communications, positioning and navigation, missile detection and warning, and weather monitoring. The Administration's National Space Transportation policy sustained and revitalized U.S. space launch capabilities and led to development of the Evolved Expendable Launch Vehicles program to provide

more efficient, economical access to space. The Space Based Infra-red Satellites will replace the existing missile detection and warning satellite constellation. The Administration consolidated Department of Commerce and DOD programs into a single enhanced, polar-orbiting satellite system now in development to reduce the cost of acquiring and operating weather systems. Finally, the Administration formulated a national policy and strategic vision for the management and use of the GPS, and funded a modernization program for GPS that will significantly improve services for all users, both civil and military.

- **Missile Defense:** The Administration has invested in both ballistic missile defense technologies and theater missile defense systems that will defend against missiles directly threatening deployed United States and allied forces. The Administration has also been committed to the development of a limited National Missile Defense (NMD) system to counter the emerging ballistic missile threat from states of concern, and to working with Russia on any changes to the Anti-Ballistic Missile Treaty that may be required to deploy a limited NMD. The NMD system as a whole is not yet proven, and the President decided in September 2000 not to proceed with the deployment at this time. However, the Administration is continuing a program that represents the fastest, and most technologically mature path to achieving an effective NMD that can protect all 50 States against emerging threats.

Reducing the Global Danger from Nuclear Weapons and Other Weapons of Mass Destruction

Shaping the Strategic Landscape Through Deterrence, Arms Control, and Cooperative Threat Reduction: The President has remained firmly committed to maintaining a robust deterrent capability while reducing the threat from weapons of mass destruction (WMD) through arms control and cooperative threat reduction efforts with states of the former Soviet Union.

- President Clinton's budgets over the past eight years have maintained and improved the Nation's deterrent capability by selectively enhancing the current nuclear force. The largest program in this regard will modify the remaining four Trident nuclear submarines to enable them to carry the most accurate and longest range submarine launched ballistic missile. Other DOD efforts to maintain the strategic nuclear force include programs that support upgrades to intercontinental ballistic missiles and intercontinental bombers such as the B-2.
- DOE also plays a critical role in the nuclear deterrence mission. Following President Clinton's announcement in August 1995 that he would seek a "zero yield" Comprehensive Test Ban Treaty, which would ban any nuclear weapons test explosions, DOE implemented a science-based Stockpile Stewardship Program to ensure the safety and reliability of our nuclear deterrent. Through this program, which relies on non-nuclear test facilities and computer codes (rather than underground testing) to simulate nuclear explosions to predict the performance of the weapons, DOE has been able to annually certify the nuclear weapons stockpile as safe and reliable. The 2001 enacted level for this program is nearly \$5 billion. The Administration successfully negotiated the zero-yield Comprehensive Test Ban Treaty with the other nuclear powers and sent it to the Senate for ratification in September, 1997. It remains in the Senate awaiting ratification.

In addition, DOE made significant progress in reducing contamination at former weapons production facilities. Over the past eight years, DOE completed remedial action at more than 4,000 of the 9,700 areas of known hazardous or radioactive material contamination, including cleanup of some ecologically sensitive areas such as along the Columbia River in Washington and above the Snake River Plain Aquifer in Idaho.

- While investing in these force enhancements and the stockpile stewardship program, the Administration has simulta-

neously worked to lower the risks associated with WMD. To that end, the President has maintained arms control as a high priority of U.S. policy and implemented reductions under the Strategic Arms Reduction Treaty (START I), brought the START II treaty to the threshold of implementation (pending Senate approval), and laid the groundwork for even further reductions under a START III agreement. In addition, the Administration negotiated the passage in 1997 of the Chemical Weapons Convention to ban the worldwide production, storage, and use of chemical weapons. To date, the United States has destroyed 22 percent of its chemical weapons stockpile.

- The Administration's threat reduction assistance programs in Russia and other states of the former Soviet Union have steadily grown to nearly \$1.0 billion per year, and they have reaped significant benefits over the past eight years. Managed by DOD, DOE, and State, the programs mitigate the danger posed by WMD, the proliferation of their fissile material components, and the scientific expertise behind them. In 2001, DOD's Cooperative Threat Reduction (CTR) program accounted for about 48 percent of the total Administration threat reduction request while DOE's portion was about 37 percent and State's was 14 percent.

DOD funds support accelerated strategic arms reductions in Russia and states of

the former Soviet Union by dismantling and destroying strategic warheads, their delivery systems, and infrastructure. They also support WMD nonproliferation efforts by enhancing the safety, security, and control of nuclear weapons and fissile material components as well as chemical and biological munitions. Over the past eight years, CTR programs have supported deactivating over 5,000 nuclear warheads, destroying 17 strategic nuclear submarines and 405 intercontinental ballistic missiles (ICBMs), and eliminating 365 ICBM silos and 67 strategic bombers, while maintaining the fissile components of these weapons in a secure environment.

The Administration began eliminating United States surplus weapons-grade plutonium by conversion and immobilization, and negotiated a similar program to dispose of Russian surplus plutonium; improved the safety of 65 reactors at Soviet-designed nuclear power plants and assisted nine countries to adopt and implement internationally accepted nuclear safety programs; and, provided security and accounting upgrades to protect over 400 metric tons of weapons-grade nuclear material at dozens of Russian and former Soviet sites. The United States and Russia also concluded an agreement in 1993 under which Russia will sell to the United States low-enriched uranium (LEU) derived from 500 tons of highly enriched uranium (HEU) from dismantled former

Table 2-3. Strategic Forces

	Cold War (Pre-START)	Current (START I)	Projected (START II)
ICBMs			
Minuteman	950	500	500
Peacekeeper	50	50	0
TRIDENT Submarines	31	18	14
SLBMs	568	432	336
Heavy Bombers	324	97 ¹	97 ¹
Total Warheads	13,498	6,000 ²	3,500

¹ Excludes 93 B-1B bombers dedicated to conventional missions.

² Maximum number of warheads on delivery vehicles determined by "counting rules" established by each treaty.

Soviet Union nuclear weapons. To date, the U.S. Enrichment Corporation (the United States agent in these purchases) has purchased LEU fuel derived from about 6,000 nuclear weapons' worth of HEU.

State's programs also support proliferation prevention activities by engaging former weapons scientists to direct their efforts away from weapons programs to activities with civilian benefits, and by preventing the illicit transfer of WMD through implementation of effective export controls.

Meeting the Challenges of Unconventional Threats: The Administration has focused on meeting the challenge from emerging unconventional and asymmetric threats designed to offset U.S. superiority. The last decade has seen an increase in the frequency and severity of terrorist attacks on military forces and civilian targets, as well as the sophistication of emerging threats, such as WMD and information-based warfare. President Clinton has made defending the United States against such threats a top national security priority, and has sought to defend against these threats through diplomatic and military means abroad and increased preparedness at home. Over the past eight years, the President:

- Issued three Presidential Directives to combat terrorism and defend against WMD at home and abroad, and to protect the Nation's critical infrastructure from cyber attack. The Directives codified the roles and responsibilities of the many U.S. agencies involved in these missions.

- Appointed a National Coordinator for Security, Infrastructure Protection, and Counter-terrorism to coordinate the U.S. Government's efforts to confront emerging threats against Americans at home and abroad.
- Provided over \$11 billion across the Government in 2001—a funding increase of more than 40 percent since 1998—to combat terrorism, defend against WMD, and protect critical infrastructure. This funding included efforts to equip and train first responders in the Nation's 120 largest metropolitan areas to prepare for and defend against weapons of mass destruction; create the first ever civilian medical stockpile for WMD incidents; and, recruit and train cyber security personnel to protect the Federal Government's own critical infrastructure.

Reforming and Improving the Management of Defense Programs

Defense Management Initiatives: The Administration identified defense reform as a major DOD priority. In November 1997, the Department announced the Defense Reform Initiative (DRI), which adopted the best business practices used by industry. The goal was to improve these activities and to reduce the overhead burden that these support activities place on the defense budget. DOD has completed two-thirds of 54 separate Defense Reform Initiatives and the remainder are well underway. Since the DRI was launched, DOD has made progress in consolidating various defense organizations, streamlining its

Table 2-4. Overall Funding for Unconventional Threats

(Budget authority, in millions of dollars)

	Actual			2001 Estimate
	1998 ¹	1999	2000	
Combating Terrorism, excluding WMD	5,871	7,519	6,966	7,759
Defense Against WMD	645	1,238	1,454	1,552
Critical Infrastructure Protection	1,142	1,429	1,759	2,027
Total	7,658	10,186	10,179	11,338

¹ 1998 was the first year that data were available.

infrastructure, re-engineering its business practices, and competing more jobs with the private sector than ever before. DOD has projected that the work currently performed by approximately 150,000 positions will be bid against private sector firms by 2005, with projected savings of approximately \$7 billion. Savings that result from competition are being re-allocated to meet readiness and modernization needs.

- *Reforming the Acquisition System:* The Administration has also strongly supported efforts by DOD to reform the way it acquires weapon systems and services. Over the past eight years, DOD has reduced the amount of time it takes to field new weapon systems by 25 percent, saved millions of dollars in small purchases through the use of a Government-wide commercial purchase card, and, through the use of electronic commerce, reduced cumbersome paper transactions by 50 percent.
- *Reducing Infrastructure:* The reduction in the U.S. force structure made possible by the end of the Cold War has left DOD with more land and buildings than it needs to carry out its mission. The Administration inherited an established process, the Base Realignment and Closure Commission (BRAC), to remove this infrastructure from DOD's inventory. Since 1988, BRAC has closed or restructured 97 major military installations and hundreds of smaller ones (55 of these major installations since 1993). While this process is costly in the short term, it is an investment that leads to elimination of the cost of upkeep on unused buildings and yields operational efficiencies. By the end of 2001, BRAC will have more than paid for itself, saving a net of \$15 billion, and will save nearly \$6 billion annually thereafter. At the same time, the Administration has worked diligently to minimize the effect of moving jobs out of affected communities by providing technical support to community redevelopment efforts, and turning over land to reuse as quickly as possible. Although the reduction in total DOD infrastructure has been beneficial and despite the many efficiencies achieved, BRAC has not kept pace with the overall change in force structure. For the last several years,

the Administration requested additional BRAC rounds to allow for a further "right-sizing" of Defense infrastructure. This request, strongly endorsed by both internal DOD and external analysis, has failed to win congressional approval.

The Administration has also implemented an aggressive demolition program, and has recently widened the authority to lease out unneeded DOD buildings and land. These programs have helped to reduce costs without moving people, and have become particularly important given the failure of the Congress to pass the legislation needed to replicate the success of previous BRAC rounds.

- *Streamlining the Civilian Work Force:* Over the past eight years, DOD has used buyouts and early retirements to achieve a streamlined and more productive work force. During this time, the Department has shrunk its civilian work force by approximately 37 percent, roughly commensurate with the reduction in military forces. The Administration was able to achieve this result mainly by offering incentives to those eligible or nearly eligible for retirement. Providing these incentives reduced the need for reductions-in-force, and thus accomplished the downsizing and streamlining with a minimal amount of disruption or economic hardship. While using these transition initiatives to ease the way for the many workers who left the work force, the Administration has also supported pay and benefit increases for the remaining employees who continue to become a more productive work force.
- *Improving Financial Management:* DOD has made significant progress in reforming its financial management operations. The Defense Finance and Accounting Service (DFAS) is the Department's agent for accomplishing needed financial management reforms. DFAS has consolidated DOD's financial operations, significantly reduced the number of finance and accounting systems, established and implemented ambitious deployment schedules, and reengineered business practices to adopt best practices from both the private and Government sectors. For example, over 300

financial management field sites were reduced to just 26, saving about \$120 million annually; 324 finance and account systems were reduced to 76—with further reductions planned to achieve ultimately a 90-percent reduction; and, between 1993 and 1999, personnel levels at the DFAS decreased by 37 percent, from 31,000 personnel in 1993 to 19,500 personnel at the end of 1999. Since 1996, the DFAS has identified over 85 percent of its personnel in finance and accounting functions as available for public-private competition, and has committed to study over 6,000 positions for competitive outsourcing. To date, the DFAS has completed six competitions resulting in annual savings of over \$28 million.

- *Implementing the Information Technology Management Reform Act (ITMRA)*: Also known as the Clinger-Cohen Act, ITMRA is designed to help agencies improve mis-

sion performance by effectively using information technology. One example is the Global Command and Control System, which provides the seamless integration of Service capabilities necessary to conduct joint and multinational operations into the 21st Century. In October 2000, the U.S. Navy awarded an eight-year, \$6.95 billion Navy—Marine Corps Intranet (NMCI) contract for managing the Service's shore-based computing enterprise. NMCI represents one of the biggest technology outsourcing contracts ever. The DOD Chief Information Officer Council manages DOD's information technology budget and its command, control, and communications budget, and provides advice on ITMRA-related issues. In addition, DOD continues to restructure its work processes while applying modern technologies to maximize the performance of information systems, achieve a significant return on investment, cut costs, and produce measurable results.

3. INTERNATIONAL AFFAIRS

Table 3-1. Federal Resources in Support of International Affairs
(Dollar amounts in millions)

Function 150	1993 Actual	2001 Estimate	Percent Change: 1993–2001
Spending:			
Discretionary budget authority ¹	21,194	22,706	7%
Mandatory outlays	–4,322	–8,815	104%
Credit Activity:			
Direct loan disbursements	1,943	2,862	47%
Guaranteed loans	9,531	11,110	17%
Tax expenditures	4,510	18,060	NA

NA=Not applicable.

¹ Excludes \$12,063 million in 1993 for an increase in the U.S. quota at the International Monetary Fund.

International affairs activities support America's critical interests by reaching key strategic goals: fostering worldwide economic growth, supporting the establishment and consolidation of democracy abroad, enhancing America's national security, improving the global environment, and addressing other key global issues, such as AIDS. The Clinton-Gore Administration capitalized upon the new post-Cold War architecture by working to expand the global economy and the benefits of globalization, supporting the liberalization of trade, and aiding countries in their transition to democracy.

Promoted Free Trade, Open Markets, and Economic Prosperity

Completed Successful Trade Negotiations—the North American Free Trade Agreement and the Uruguay Round: Strong U.S. growth over the past eight years accompanied America's increased integration into the world economy. Between 1992 and 1999, the U.S. economy, as measured by real gross domestic product, grew at an average annual rate of 3.7 percent, while real exports of goods and services increased on average by 6.8 percent per year. Imports have grown at an average annual rate of 10.6 percent per year. This

reflects both stronger growth in the United States than in the rest of the world over much of this period, and the crucial role of imports—now dominated by capital goods such as the computers and machinery—in supporting U.S. investment. Indeed, increased globalization has come at a time of rapid growth that has produced a dramatic increase in the number of new jobs and the reduction of unemployment to the lowest levels in 30 years.

These developments have been facilitated by the Administration's trade policy accomplishments, including passage of the Uruguay Round trade agreements, the North American Free Trade Agreement, and over 200 post-Uruguay Round negotiations that have yielded additional market access commitments in financial services, basic telecommunication services, and information technology. Several studies recently reviewed by the Council of Economic Advisers estimate an annual income gain to the United States of between \$27 billion and \$37 billion with full implementation of the Uruguay Round's results.

Successfully Managed Financial Crises in Mexico and Asia: Since 1993, the Administration has confronted and successfully responded to two serious financial crises that threatened to undermine regional and global

economic stability. In December 1994, the rapidly depreciating Mexican peso jeopardized the economic progress and reforms made by the government of Mexico up to that point. In response, the Administration extended up to \$20 billion in available credits through the Exchange Stabilization Fund (ExSF), and worked with the International Monetary Fund (IMF) to extend a line of credit based on the implementation of further reforms. The rapid response proved instrumental in restoring investor confidence and allowing the Mexican economy to resume growth. As a measure of this success, by January 1997, Mexico had repaid ahead of schedule all of the \$11.5 billion it drew from the facility.

A more serious crisis emerged in the fall of 1997 when the devaluation of the Thai currency began a series of currency crises in Asia that soon engulfed Malaysia, Indonesia, Philippines, and South Korea—and later Russia. This crisis, because of its size and the region's integration into the global economy, threatened the stability of the global economic and financial system. The Administration responded to this crisis by advancing steps to strengthen the international financial architecture, by maintaining open markets, by making the ExSF available as part of a secondary line of defense against further instability, and by achieving authorization and appropriation for an IMF quota increase and the establishment of the New Arrangements to Borrow (NAB). Coupled with the macroeconomic and structural reforms implemented by the Asian governments, much of the region has resumed positive growth rates in a more sustainable fashion just two years after the crisis.

Passed the International Monetary Fund Quota Increase and the New Arrangements to Borrow: In cases of severe international financial crises, the IMF plays a key role in mobilizing official assistance conditioned on policy reforms—and is the one institution situated to mobilize such substantial support quickly—and provides the predominant share of official financing needed to help stabilize the global monetary system. In September 1997, the 11th quota review resulted in a call for a 45-percent increase in the resources of the IMF to allow it to carry out its normal operations while preserving the

ability to respond to such crises in a rapidly growing and increasingly complicated world economy. In addition to the IMF quota increase, the G-7 nations proposed the creation of the New Arrangements to Borrow, which would complement the existing supplemental credit line, the General Arrangements to Borrow.

The call for an increase in available IMF resources coincided with the decade's gravest threat to the global financial and economic system, the East Asian Financial Crisis. With this event as a backdrop, the Administration requested and received authorization and appropriations for both the quota increase (\$14.5 billion) and the NAB (\$3.4 billion) in 1999. That legislation resulted in both the needed resources being made available and a bipartisan agreement on policy priorities in the IMF, which included a commitment to greater IMF transparency, resulting in the adoption of a number of reforms by the Fund. With the quota increase and credit line in hand, the IMF was able to play a critical role in responding to the crisis and help the affected countries along the path of reform and sustainable growth.

Facilitated the Continued Transition to Democracy Throughout the World

Helped Integrate Poland, Hungary, and Czech Republic into the West: The integration of Poland, Hungary, and the Czech Republic into the democratic, free-market family of nations and Western institutions such as NATO is one of the key foreign policy achievements of the past eight years. Since 1993, U.S. efforts in these countries focused on building democratic institutions and achieving economic reforms. Timely and effective U.S. assistance played a key role in their governments' efforts to privatize industries and put in place the judicial and regulatory structures needed for a market economy and a society based on the rule of law. As a result of these efforts, by 2000, these three countries had graduated from being Support for Eastern European Democracy aid recipients to becoming NATO allies, all within one decade of the dismantling of their Communist regimes.

As a measure of the success of U.S. assistance efforts, according to Freedom House, all three countries have achieved political rights and civil liberties that are roughly comparable to those found in Western Europe, with their Freedom House ratings, based on a 1 to 5 scale, improving from 4.2 in 1992 to 4.7 in 1999. Similarly, U.S. assistance in implementing economic reforms has helped all three countries develop effective market institutions and flourishing private sectors. Because their transformations have been so successful, Hungary, Poland, and the Czech Republic are among the first tier of countries that will be considered for membership in an expanded European Union.

Helped Democratic Transitions in Russia and Ukraine: Since 1993, the Administration's assistance strategy for the states of the former Soviet Union has been designed to foster their transition to democracy and market-based economies and to facilitate their integration into the larger global community, while advancing U.S. national security interests in such areas as nonproliferation and arms control. The strategy has achieved notable successes during the past eight years. In Ukraine, for example, U.S. assistance made possible Ukraine's complete denuclearization and helped develop and implement a successful privatization program for small- and medium-sized enterprises. Similar assistance efforts in Russia, particularly in the threat reduction area, have helped ensure implementation of landmark arms control treaties and ensure that weapons of mass destruction do not fall into the wrong hands. In both countries, U.S. assistance has helped promote the growth of independent media and non-governmental organizations. The transitions in Russia and Ukraine are incomplete, but both countries have made important strides toward development of democratic institutions and the rule of law. Their successful completion will depend upon continued commitment on the part of both governments to overcome challenges such as crime and corruption as well as economic inequality, combined with the implementation of effective reform programs and improvements to the investment climate.

Promoted Peace in the Middle East: During the last eight years, the United States has

been a strong and continuous supporter of the search for a comprehensive peace in the Middle East. United States diplomatic and financial support has been indispensable for progress towards peace and stability in the region. Our efforts have focused on promoting progress and stability through bilateral negotiations between Israel and the Palestinians, Syrians, and Lebanese; through supporting allied nations with diplomacy, military deployments, and security assistance; and, through regional economic development and containment of Iraq and other threats to stability in the region. U.S. assistance has contributed to and helped sustain the progress achieved as a result of the Oslo Accords, the supplementary Wye River and Sharm el Sheik agreements, the Jordanian-Israeli peace treaty, and the Camp David negotiations this past year. Most recently, the Administration submitted a request of \$750 million in supplemental 2001 funding and recommended an additional \$500 million in 2002 funding to assist those countries and parties in the Middle East that take constructive steps in the search for peace. In the current tragic circumstances of continued violence in the region, the United States has worked closely with the parties to end the violence and has supported international efforts, such as the International Fact Finding Committee, designed to diffuse tensions and restore confidence among the parties in the region.

Promoted U.S. Assistance for Plan Colombia: The U.S. assistance to Plan Colombia is a \$1.3 billion bi-partisan, integrated set of programs developed with the government of Colombia and designed to reduce the supply of drugs coming into the United States and to bring greater stability to the Andean region. This emergency supplemental appropriation was signed by the President in July 2000, and includes funding for interdiction of trafficking, eradication of illicit crops, alternative development, human rights strengthening, displaced persons, and justice system reforms in Colombia and other Andean countries. Even as implementation proceeds, the United States continues to lead efforts to encourage cooperation and contributions from the international community. Success of this program will depend upon the successful coordination of its different, inter-related facets, and upon the direction taken by Colombia's internal conflict.

Helped Democracy in Guatemala: After 36 years of civil war that led to the death of up to 200,000 people, the government of Guatemala signed a peace agreement formally ending the conflict in 1996. The peace accords established the framework for a more participatory and equitable society involving the integration into society of ex-rebels and a comprehensive restructuring of the military, justice system, tax policy, and social services.

As part of a multilateral effort to support the peace accords, the United States doubled its assistance to Guatemala, and has provided over \$110 million in Economic Support Funds since 1997 to support the implementation of the accords, the demobilization of thousands of ex-combatants, infrastructure reconstruction in war-affected areas, land titling, fiscal reform, and literacy of women. With strong multilateral support, Guatemala is now entering its fifth year of successfully implementing the peace accords. These structural reforms have started the process of transforming Guatemala into a more participatory and equitable society, but significant challenges remain. The Agency for International Development (USAID) plans to continue support for the peace process until 2003 to address remaining challenges, including continuing income disparities, land distribution issues, and civic violence.

Debt Forgiveness: In 1999, under United States leadership, the G-7 nations agreed at the Cologne summit to an initiative to provide expanded debt reduction to heavily indebted poor countries (HIPC). This initiative will provide the 33 countries likely to meet HIPC eligibility requirements with debt reduction of up to \$90 billion, or 70 percent of their total debt. For 2000 and 2001, the Congress appropriated the Administration's full request of \$545 million (\$185 million for the reduction of U.S. bilateral debt and \$360 million as a contribution to the HIPC trust fund to reduce the debt held by regional development banks) for the expanded HIPC initiative. In order to fully implement the initiative, \$375 million in additional funds will need to be appropriated in 2002 and 2003.

Many poor countries, particularly in Africa, have developed unmanageable debt burdens to official bilateral and multilateral creditors,

and the debt servicing payments to these creditors often prevent these countries from making desperately-needed social investments in poverty reduction, primary education, child immunizations and other health programs, or clean water and sanitation. In the vast majority of HIPCs, per capita Gross National Product amounts to less than \$1 per day and the average for all HIPCs is only about \$360 per year. In response to the needs of these countries, the United States proposed to expand the HIPC initiative (originally adopted in 1996) to provide deeper, broader, and faster debt reduction for more countries, contingent on economic reforms and application of savings on debt servicing to social concerns. While the Administration's efforts have been a leap forward in addressing the debt burden of poor countries, long-term success ultimately will depend in large part on whether the beneficiary countries continue the economic reforms begun under this initiative and remain committed to the alleviation of poverty and support of social programs.

Developed and Expanded Programs to Assist African Countries: The HIPC debt reduction initiative is just one of a series of measures that this Administration has undertaken during the past several years to assist sub-Saharan African countries to strengthen their economies and deal with difficult economic, social, political, and environmental conditions. These initiatives have been a response to the clear understanding that many countries in sub-Saharan Africa have failed to participate in the benefits of the growing economic globalization. Rather, these countries have failed over the past three decades to sustain positive, real, per-capita economic growth, with serious negative consequences for their populations. In addition to debt reduction, some of the key measures undertaken by the Administration to assist sub-Saharan Africa have included:

- the increase in bilateral assistance levels, and the economic, social, and political programs they support, back to past peak levels;
- the passage of the African Growth and Opportunity Act, which, by reducing U.S. tariffs on goods from sub-Saharan African

countries as well as other measures, seeks to encourage increased trade and investment between the United States and sub-Saharan African countries;

- the implementation of the Africa Trade and Investment Policy Program, which helps reform-oriented African countries to improve the enabling environment for trade and private investment;
- the provision of disaster assistance to countries seriously impacted by natural disasters, including \$160 million to respond to flooding in southern Africa in 2000; and,
- the rapid scaling up in 2000 and 2001 of broader HIV/AIDS initiatives to combat the pandemic in south and eastern Africa.

The results of these efforts are somewhat mixed—while South Africa successfully ended apartheid and Mozambique peacefully concluded its decades-long civil war, civil strife continues in Sierra Leone, the Democratic Republic of the Congo, and other countries. However, the outrage expressed by African, as well as Western, countries at the recent military coup in Cote d'Ivoire is an encouraging sign that more and more Africans expect their governments to adhere to the rule of law and improve their standards of living.

Grappled with Global Problems

Increased AIDS Awareness, Development of Preventative and Ameliorative Programs: The HIV/AIDS pandemic is the defining public health crisis of our time, which threatens to undo four decades of progress in international development. At the start of the 1990s, health experts estimated that between 15 and 20 million people would be living with HIV by the beginning of the 21st Century. Ten years later, the true magnitude of the epidemic is far more alarming: over 36 million people are living with HIV; and, HIV/AIDS prevalence among adults exceeded 20 percent in seven countries in sub-Saharan Africa. In the hardest hit African countries, infant mortality is twice as high as it would have been without AIDS.

The U.S. Government has been the world leader in responding to the global pandemic

of AIDS. Since 1993, the United States, through USAID, has dedicated over \$1.5 billion for the prevention and mitigation of this epidemic in the developing world. USAID's support was instrumental in reducing the prevalence of HIV in Uganda and Zambia and in stabilizing low HIV prevalence rates in Senegal, Philippines, and Indonesia. By 1999, however, it became apparent that international efforts to combat the HIV pandemic needed to be stepped up and the U.S. Government responded. The United States' global AIDS funding has increased from \$139 million in 1999 to an estimated \$455 million in 2001. These increases are focused on high-prevalence countries and low-prevalence countries at risk of impending epidemics in sub-Saharan Africa, Asia, and Latin America, where countries have been selected for "rapid scale-up" and "intensive focus" under the Leadership and Investment in Fighting an Epidemic initiative. The U.S. Government effort has brought together a host of Federal agencies in the first ever Government-wide mobilization against AIDS.

Kyoto Protocol and Related Environmental Programs: Global climate change is one of the most far-reaching threats to sustainable development worldwide. As the world's number one emitter of greenhouse gasses, the United States has recognized the need to work with developing countries to stem global climate change. The Administration announced at the UN in 1997 a plan to invest \$1 billion over the next five years in programs and activities to help developing countries to reduce greenhouse gas emissions, and the 2001 appropriation funds the fourth tranche of this commitment. USAID is also addressing other critical global environmental challenges such as clean energy, natural resources management, and biodiversity conservation, for which the 2001 appropriation provides a significant increase in funding.

President Clinton signed the Kyoto Protocol in November 1998, reaffirming the Administration's commitment to work with other countries to meet the challenge of global warming. The Kyoto Protocol is an historic step forward in international efforts to address global warming, incorporating environmental targets with market-based mechanisms to minimize the cost of meeting them. However,

ratification of the Protocol requires passage by the U.S. Senate. Lasting progress in combating global warming will require ratification by the United States, as well as meaningful participation by key developing countries in addressing climate change.

Protected American Lives and Changed America's Foreign Policy Machinery

Greatly Expanded Embassy Security: As the President stated on the second anniversary of the bombing attacks on our embassies in Nairobi and Dar es Salaam on August 7, 1998, the terrorists took from us our colleagues, friends, and loved ones, but they have failed utterly to deter us from advancing our principles around the world. Addressing the security vulnerabilities of the Nation's diplomatic presence has been given the highest priority. Since the embassy bombings, the Administration has embarked upon an unprecedented program of security initiatives around the world. It initiated a long-term capital program, because it will take a multi-year effort to address these vulnerabilities and proposed advanced appropriations of \$3.4 billion over the 2002-2005 period to sustain that program. Efforts have focused on bringing our diplomatic facilities up to heightened security standards and on maintaining necessary security upgrades. These have included enhanced local guard services, physical security equipment and technical support upgrades, increased deployment of armored vehicles, increases in American security personnel, security and crisis management training, and a worldwide program to build new, secure facilities.

Through 2001, the Administration has invested about \$3 billion in this effort. These funds have been used to upgrade comprehensively the security at our overseas facilities, including enhancing the physical security at U.S. missions through construction projects, the installation of security equipment, inspecting all vehicles entering U.S. diplomatic facilities, expanding anti-terrorism assistance training to aid foreign police in combating terrorism, and hiring additional diplomatic security agents. These funds are also being used to support the initial stages of a worldwide embassy security construction program with a goal of replacing up to 220 diplomatic and consular facilities worldwide with new,

secure buildings. A major challenge currently being addressed is the need to pursue fully regional efficiencies and security planning that will have an impact on the need for overseas staffing. The results of such analysis then will be used to ensure that facility design addresses both the size and functional needs of all U.S. Government staffing needs at each location.

Enhanced the Security of U.S. Borders: The Administration has implemented a comprehensive strategy to improve the Department of State's equipment, technology systems, and support needed to carry out the vital function of U.S. border security. Major initiatives over the last eight years have included a comprehensive, worldwide upgrade of computer equipment and consular systems at the Department's overseas posts; increased data sharing with other border security and law enforcement agencies; continued improvements to the automated name checking system capabilities; expanded implementation of the Border Crossing Card program in Mexico; and, modernization of the security and delivery of U.S. passports to American citizens, including completion of the initial deployment of passport photo digitization technology. These improvements were made possible by the establishment of a new fee paid by persons seeking non-immigrant visas for travel to the United States.

Improved security has not come at the expense of customer service. To the contrary, under the Vice President's National Performance Review, reinvention goals have been met by eliminating long lines at high volume passport agencies and vastly increasing consular information and services available via the Internet. Appointment systems that allow customers to schedule a convenient time to apply for a passport are now installed at passport agencies in New York, Boston, Chicago, Houston, Los Angeles, Miami, Philadelphia, San Francisco, Seattle, Stamford, and Washington, D.C., and the Department of State has eliminated the requirement to stand in line while waiting for service by introducing customer-numbering systems. The Department of State's Consular Affairs web site (travel.state.gov) went on-line in 1996. Since then, the amount and variety of information on the site have grown enormously and it now includes downloadable passport

applications, announcements and warnings on safety abroad that are posted on the web site immediately upon approval, tips for students and travelers, and other information and services to assist Americans abroad.

Integrated the United States Information Agency (USIA) and the Arms Control and Disarmament Agency (ACDA) into the State Department: The end of the Cold War and efforts to reinvent Government provided the opportunity to seek a new approach to the conduct of foreign policy and a reorganization of foreign affairs agencies. Under the Foreign Affairs Reform and Restructuring Act of 1998, USIA and ACDA were consolidated, and the missions, personnel, and programs of these agencies were integrated into the State Department and the newly-independent Broadcasting Board of Governors, which was established as an independent executive branch agency. One year following the October 1, 1999, implementation of the Act, the integration of USIA's programs into the State Department has already strengthened U.S. foreign policy by making public diplomacy an integral component of foreign policy. ACDA's integration on April 1, 1999, has made the State Department better able to contribute to the coordination of foreign and security policy and deploy more effectively the broad tools of diplomacy to promote arms control and non-proliferation. As integration is fully implemented, the challenge remains to streamline activities and effectuate significant management improvements and resource reductions in years to come.

Provided Multilateral Solutions to Multilateral Problems

UN Reform and Arrears Clearance: The Administration, in cooperation with the Congress, has made substantial progress toward reducing U.S. arrears owed to the UN and bringing about badly needed reforms in that organization. The United States has used its influence to push for management improvements, organizational streamlining, and the budget discipline needed to ensure zero nominal growth in the UN and specialized agencies' budgets. The United Nations Reform Act of 1999 provides the foundation for this process by conditioning U.S. payments for specific arrearage amounts to the implementation of re-

forms at the UN and reductions in the U.S. assessment rate for the UN regular, peacekeeping and other specialized agencies' budgets. The Administration obtained congressional approval for \$926 million to be available upon those conditions being met. The first set of conditions was met last year, allowing an initial payment of arrears of \$100 million. As a critical element in the effort to bring about the other reforms that must be achieved prior to releasing the remaining arrearage payments, the Administration successfully concluded negotiations to establish a new scale of assessments for UN dues that will reduce the U.S. share of the UN budget and result in substantial future budgetary savings.

Expanded UN Peacekeeping: The Administration has used its leadership at the UN in support of a number of peacekeeping operations to contain flashpoints that threatened international security in Bosnia, Kosovo, East Timor, and other locations. UN peacekeeping operations have directly supported U.S. national interests by helping nurture new democracies, reducing refugee flows, and preventing small conflicts from developing into regional or international wars which would be far more costly in terms of lives and resources. The United States has been a driving force behind efforts to identify and implement reforms at the UN to improve the efficiency and efficacy of peacekeeping operations. As part of this process, the United States recently concluded negotiations with the other UN member countries to reduce the level of U.S. assessments for UN peacekeeping activities.

Non-Proliferation: The Administration supported several initiatives in the area of non-proliferation.

Enhanced Threat Reduction Initiative: Over the past eight years, the United States has provided extensive assistance to Russia and the other New Independent States (NIS) to help reduce the risk of proliferation of weapons of mass destruction and associated delivery systems, materials, technology and expertise, and to enhance regional stability. Such assistance has enabled Belarus, Kazakhstan, and Ukraine to become non-nuclear-weapons states and helped deactivate over 5,000 strategic nuclear warheads. The 1998 economic crisis in Russia and other NIS increased the risks of

weapons and weapons expertise proliferation. In response, the Administration proposed the Expanded Threat Reduction Initiative in January 1999 to accelerate and expand non-proliferation assistance to the NIS. As a result, with congressional support, over \$870 million was made available in 2000 and 2001 for high priority non-proliferation programs of the Departments of Defense, Energy, and State. These programs have enhanced nuclear material security at tens of NIS sites; provided thousands of former Soviet weapons scientists employment opportunities in peaceful research and development ventures; enhanced border controls; and provided other assistance to reduce regional and global threats. Success in continuing to reduce such threats will be dependent upon continued cooperation between Russia, the other NIS, and the West to address global security concerns raised by economic uncertainty in the region.

Korean Peninsula Energy Development Organization (KEDO): The United States has been committed to preventing the destabilizing manufacture and deployment of nuclear weapons by North Korea. Through focused diplomatic efforts, the United States and North Korea concluded in October 1994 an Agreed Framework to address concerns about the intentions of North Korea's nuclear program. Under the terms of the Agreed Framework, the United States pledged to assist North Korean civilian energy requirements—with non-proliferation safeguards—through the newly created KEDO in exchange for North Korean termination of its own nuclear program and for coming into line with international nuclear non-proliferation norms. Since the conclusion of the Agreed Framework, the United States has worked with the North Koreans toward full implementation, which has also led to improved relations between the countries, culminating in the visit of the Secretary of State to North Korea in the fall of 2000.

Other Non-Proliferation Successes: More generally, the United States has invested in major efforts over the last eight years to strengthen the international regimes aimed at curbing

weapons of mass destruction and ballistic missiles. In 1995, the Nuclear Non-Proliferation Treaty, which originally was set to last only twenty-five years, was extended indefinitely. In 1997, the Chemical Weapons Convention, which prohibits the development, production, transfer, and use of chemical weapons, entered into force following ratification by the U.S. Senate. While Senate ratification for the Comprehensive Test Ban Treaty remains to be secured, 160 countries have signed—and 67, including Russia, have ratified—this treaty prohibiting all nuclear explosions. At the same time, the United States has led the drive to strengthen both the nuclear safeguards system administered by the International Atomic Energy Agency and the constraints on biological weapons embodied in the Biological and Toxin Weapons Convention.

Responded to Humanitarian Crises

Aggressive Responses to Hurricanes Mitch and Georges: In response to Hurricanes Mitch and Georges, which devastated Central America and the Caribbean, respectively, in the fall of 1998, the U.S. Government civilian and military authorities cooperated to mount quickly and effectively one of the largest emergency relief responses to an international natural disaster in U.S. history. In the space of a few months, the United States provided supplies and food to millions of victims, as well as to effect emergency repairs to bridges, roads, and schools. In May 1999, the Congress approved the Administration's request for \$956 million in supplemental funds for the Central American and Caribbean countries affected by the hurricanes. It contained \$621 million in reconstruction assistance to replace lost housing, rehabilitate damaged schools, implement disaster mitigation and watershed restoration, and support local governments. More than \$100 million of the funding is being implemented with the cooperation of 12 other U.S. agencies including the Department of Transportation, Department of Health and Human Services, Peace Corps, and the U.S. Army Corps of Engineers.

4. GENERAL SCIENCE, SPACE, AND TECHNOLOGY

Table 4-1. Federal Resources in Support of General Science, Space, and Technology
(Dollar amounts in millions)

Function 250	1993 Actual	2001 Estimate	Percent Change: 1993–2001
Spending:			
Discretionary budget authority	17,214	20,830	21%
Tax expenditures	3,300	7,700	133%

Investments in scientific discovery and technological development both public and private have driven economic growth and improvements in the quality of life in America for as long as our Nation has existed. (See Table 4-2.) In the last fifty years, developments in science and technology have generated at least half of the Nation's productivity growth, creating millions of high-skill, high-wage jobs. Federal Government support for science and technology has helped put Americans on the Moon, harnessed the atom, tracked weather patterns and earthquake faults, and deciphered the chemistry of life.

In 1993, President Clinton took office committed to expanding investment in civilian research and development (R&D), because technological advances are key to progress and economic growth. The President's economic strategy relied upon the critical element

of investing in people and proposed targeted investments to help the Nation compete in the global economy and improve our quality of life. The Clinton-Gore Administration's investments in R&D were guided by several fundamental principles, including the following: a) sustain and nurture America's world-leading science and technology enterprise, through pursuit of specific agency missions and through stewardship of critical research fields and scientific facilities; b) strengthen and expand access to high-quality science, mathematics, and engineering education, and contribute to preparing the next generation of scientists and engineers; c) focus on activities that require a Federal presence to attain national goals, including national security, environmental quality, economic growth and prosperity, and human health and well being; or, d) promote inter-

Table 4-2. Selected Research Increases
(Budget authority, dollar amounts in millions)

	1993 Actual	2001 Enacted	Percent Change: 1993–2001
National Institutes of Health	10,335	20,370	97%
National Science Foundation	2,750	4,426	61%
Total 21st Century Research Fund	29,681	44,908	51%

Note: See Table 4-4 for details.

national cooperation in science and technology that would strengthen the advance of science and achievement of national priorities.

In his first year, the President proposed and secured passage of a research tax credit to spur additional basic and applied research as well as significant investments to fund R&D in a range of fields. In keeping with the emphasis on civilian research and development, the Administration increased the share for civilian R&D investments, from 42 percent in 1993 to 50 percent in 2001. Discretionary funding in the general science, space, and technology function increased by 21 percent from \$17.2 billion in 1993 to \$20.8 billion in 2001. (A restructuring of budget accounts in 1998 and 1999 added \$1.5 billion in 2001 for this function for Department of Energy (DOE) R&D activities. These amounts were included in the energy function—see Chapter 5, “Energy”—in 1993.) During this same period, total Federal funding for R&D

across all budget functions increased by 24 percent, from \$72.5 billion to \$90.2 billion, while funding for defense R&D received a more modest increase of seven percent, from \$42.2 billion to \$45.0 billion (see Table 4–3). Defense R&D currently accounts for nearly 90 percent of federally-funded development, which decreased by one percent since 1993, from \$42.8 billion in 1993 to \$42.5 billion in 2001.

In 1999, the President established the 21st Century Research Fund for America (see Table 4–4), relying upon a coordinated and balanced investment strategy to provide resources for basic research at the National Institutes of Health (NIH), the National Science Foundation (NSF), and DOE, and a wide range of applied research activities in areas such as the environment, agriculture, energy, computers, communications, and transportation. In addition to allocating resources in a balanced manner across several budget

Table 4–3. Research and Development Investments ¹

(Budget authority, dollar amounts in millions)

	1993 Actual	2000 Actual	2001 Enacted	Percent Change: 1993 to 2001	Percent Change: 2000 to 2001
Funding by R&D Type:					
Basic Research	13,362	19,323	21,861	64%	13%
Applied Research	13,608	18,642	21,182	56%	14%
Development ²	42,795	40,399	42,518	–1%	5%
Equipment	³	983	1,094	NA	11%
Facilities	2,727	3,728	3,552	70%	–5%
Total	72,492	83,075	90,207	24%	9%
Funding by R&D Share:					
Civilian	30,329	40,471	45,181	49%	12%
Defense	42,163	42,604	45,026	7%	6%
Total	72,492	83,075	90,207	24%	9%
Civilian (percent)	42%	49%	50%		
R&D Support to Universities	11,674	14,377	16,365	40%	14%
Science and Technology Initiatives:					
National Nanotechnology Initiative	NA	267	420	NA	57%
Information Technology R&D	728	1,543	2,006	176%	30%
Climate Change Technology Initiative	NA	1,096	1,239	NA	13%
Partnership for a New Generation of Vehicles	NA	224	236	NA	5%
U.S. Global Change Research Program.. ..	1,326	1,692	1,700	28%	*

* = 0.5 percent or less.

NA = Not applicable.

¹ Includes funding from multiple functions.

² Defense R&D funding is the source of nearly 90 percent of Federal development funding.

³ Equipment and facilities data were not collected separately in 1993.

Table 4–4. 21st Century Research Fund ¹

(Budget authority, dollar amounts in millions)

	1993 Actual	2000 Actual	2001 Enacted	Percent Change: 1993 to 2001	Percent Change: 2000 to 2001
Health and Human Services:					
National Institutes of Health	10,335	17,813	20,370	97%	14%
National Science Foundation	2,750	3,897	4,426	61%	14%
National Aeronautics and Space Administration (NASA):					
Space Science	1,770	2,193	2,508		
Earth Science	996	1,443	1,498		
Aerospace Technology	884	985	1,107		
Life and Microgravity Sciences	408	275	317		
NASA Total	4,058	4,896	5,430	34%	11%
Department of Energy (DOE):					
Science Programs	3,066	2,788	3,186		
Solar and Renewable R&D	249	315	375		
Energy Conservation R&D	346	577	626		
DOE Total	3,661	3,680	4,187	14%	14%
Department of Defense (DOD):					
Basic Research	1,314	1,161	1,318		
Applied Research	3,549	3,410	3,690		
DOD Total	4,863	4,571	5,008	3%	10%
Department of Agriculture (USDA):					
CSREES Research and Education	433	487	543		
Economic Research Service	59	53	55		
Agricultural Research Service	661	830	916		
Forest Service Research	183	218	246		
USDA Total	1,336	1,588	1,760	32%	11%
Department of Commerce (DOC):					
Oceanic and Atmospheric Research	202	298	358		
National Institutes of Standards and Technology ²	364	534	494		
DOC Total	566	832	852	51%	2%
Department of Transportation (DOT):					
Highway Research	221	490	437		
Aviation Research	230	156	187		
DOT Total	451	646	624	38%	–3%
Department of Interior: U.S. Geological Survey	750	813	882	18%	8%
Environmental Protection Agency (EPA):					
Office of Research and Development	517	561	573		
Climate Change Technology programs	NA	103	96		
EPA Total	517	664	669	29%	1%
Department of Education: Research programs	162	319	349	115%	9%
Department of Veterans Affairs: Medical Research	232	321	351	51%	9%
21st Century Research Fund	29,681	40,040	44,908	51%	12%

NA = Not applicable.

¹ Includes funding from multiple functions.² Does not include Manufacturing Extension Partnership.

functions, the Research Fund serves as an effective tool to ensure that complementary disciplines are funded consistent with a balanced portfolio of research activity. The Research Fund also focuses on basic research and strengthening university-based research. During this Administration, funding for programs in the 21st Century Research Fund has grown 52 percent from \$29.7 billion in 1993 to \$44.9 billion in 2001. During this same period, funding support for universities grew to nearly \$16.4 billion in 2001, a 40-percent increase since 1993.

This Administration also promoted high-priority multiagency science and technology initiatives in strategic areas important to the future of the Nation. These efforts include investments in information technology research, nanotechnology, global change, climate change technologies, and the next-generation of fuel-efficient, environmentally-smart vehicles. These priority areas hold great promise for breakthroughs that are revolutionary, that drive the economy and that likely will change the way we think and live.

Within the general science, space, and technology function, the Federal Government supports areas of cutting-edge science and technology, through the National Aeronautics and Space Administration (NASA), NSF, and DOE. The activities of these agencies contribute to greater understanding of the world in which we live, ranging from the edges of the universe to the smallest imaginable particles, and to new knowledge that may have applications that improve our lives. Each of these agencies fund the construction and operation of major scientific facilities on Earth or in space for multiple users. These agencies also contribute to the Nation's cadre of skilled scientists and engineers. A description of the accomplishments during the Clinton-Gore Administration for NASA, NSF, and DOE follows.

National Aeronautics and Space Administration

NASA is the lead Federal agency for R&D in civil space activities, working to expand frontiers in air and space to serve America and improve the quality of life on Earth. NASA pursues this vision through investments

in five enterprises (Space Science, Earth Science, Biological and Physical Research, Aero-Space Technology, and Human Exploration and Development of Space) and missions to carry out these activities.

Space Science: Space Science programs are designed to enhance our understanding of the possible existence of life beyond Earth, the fundamental rules that governed the creation and evolution of our universe and its galaxies, stars, planets and life, and how changes in the Sun can affect Earth. Highlights of Space Science mission accomplishments during this Administration include:

- Using images from NASA's Mars Global Surveyor spacecraft, scientists discovered new geological features suggesting the existence of large sources of liquid water at or near the surface of Mars. This discovery, combined with microscopic evidence of possible bacterial fossils in Martian meteorites, revolutionized scientific views on the potential for life on Mars.
- Using images and other data from NASA's Galileo mission to Jupiter, scientists discovered evidence which strongly suggests that Jupiter's moon, Europa, harbors a subterranean ocean beneath its icy crust, further extending possible abodes for life elsewhere in our solar system.
- Astronomers funded by NASA and NSF discovered the first scientific evidence that planets exist in other star systems. Astronomers have identified approximately 50 stars that have evidence of planetary companions to date.
- On July 4, 1997, NASA successfully landed the Mars Pathfinder spacecraft and its Sojourner rover on Mars. The Pathfinder mission garnered worldwide interest, with almost one billion "hits" on Pathfinder's web site. The cost of the Pathfinder mission was one-sixth that of one of NASA's Viking missions that landed on Mars in 1976.
- NASA's Hubble Space Telescope took images of the most distant parts of our universe yet seen. Calculations of the distance to some faraway galaxies based on Hubble data show that our universe is expanding faster than previously understood and

have led to new theories about an unidentified energy source that is driving the expansion of our universe.

Earth Science: Earth Science programs focus on the effects of natural and human-induced changes on the global environment through long-term, space-based observation of Earth's land, oceans, and atmospheric processes. These observations provide data for refining scientific models of the Earth system that inform global climate change decision-making. Highlights of Earth Science accomplishments during this Administration include:

- NASA moved its Earth Observing System series of remote sensing satellites from planning to operation by launching Terra, the first satellite in the series, in 2000. Using data from Terra, scientists will continue to study the Earth's climate, atmosphere, oceans, land cover, and ecosystems. NASA scientists have already discovered that the growing season in Canada and Siberia increased by about one week during the 1980's, perhaps evidence of climate warming due to human influence.
- Researchers continuously tracked the waxing and waning of the El Nino phenomenon from space for the first time using NASA's Ocean Topography Experiment mission. Scientists funded by NASA and NOAA uncovered the mechanics of El Nino and will be better able to predict how future El Ninos influence rainfall levels throughout the world.
- The Tropical Rainfall Measurement Mission, a partnership between NASA and its sister agency in Japan, made the first accurate measurements of rainfall over global tropical regions. By combining these measurements with wind data from NASA's QuikSCAT mission, scientists improved models for predicting when and where a hurricane will hit land.
- NASA's Total Ozone Mapping Spectrometer tracked the annual shrinkage and growth of the areas of depleted ozone over the Earth's poles. Ozone is a key chemical in the Earth's atmosphere that blocks dangerous ultraviolet radiation from the Sun. Researchers believe certain man-made chemicals create these "ozone holes".

Biological and Physical Research: Biological and Physical Research programs conduct experiments in physics, chemistry and biology to understand how the unique conditions of the space environment affect living organisms and fundamental science phenomena. Using this information, scientists hope to reduce the risks of long-duration human spaceflight and gain new insights into biology, materials, and processes that can improve life on Earth. Highlights of Biological and Physical Research accomplishments during this Administration follow.

- A NASA researcher used a novel new state of matter called a Bose-Einstein condensate to create an "atom laser" that generates an intense beam of coherent atoms. The step from ordinary atomic beams to atom lasers is analogous to the step from the light bulb to the optical laser. The atom laser might replace conventional atomic beams and provide greater precision in atomic clocks and for tests of the fundamental laws of physics. Ultimately, it might lead to high-resolution atom deposition on surfaces for the fabrication of novel materials and nanostructures.
- NASA researchers developed the rotating bioreactor to enable the growth and study of tissue cultures in three dimensions, both in space and on the ground. The bioreactor enables tissue research in an environment that mimics the human body with much more fidelity than previous research methods. This technology has allowed a NASA/NIH team to conduct the first laboratory study of HIV inside human lymphoid tissue, allowed research on three-dimensional prostate and ovarian cancer tumors outside the body, and is enabling tissue engineering applications for cartilage, heart, liver, kidney, and other tissues for research and commercial development.
- NASA-funded scientists achieved new understanding of the phenomenon of neural plasticity by studying the rapid and apparently reversible dynamic changes in the brain as it adjusts to weightlessness in space. This work helped to reverse a long-held belief that cells in the adult central nervous system could not grow and adapt.

Continued research to identify the molecular mechanisms responsible for neural plasticity is expected to improve astronaut health and safety, and NASA is working with NIH to improve medical care for balance and postural disorders on Earth.

Aero-Space Technology: Aero-Space Technology programs work with the private sector to develop and test new technologies and experimental vehicles that promise to reduce the cost of access to space, improve space transportation capabilities, and support revolutionary new generations of spacecraft. Highlights of Aero-Space Technology accomplishments during this Administration include:

- NASA and industry developed and test-fired two new, revolutionary rocket engines, the XRS-2000 linear aerospike engine and the M-1 Fastrac engine. The engines may power future, low-cost launch vehicles.
- NASA and industry completed assembly and conducted ground and captive carry flight tests of the X-34 experimental test vehicle. The X-34 is aimed at demonstrating low-cost, fast-turnaround launch operations.

Human Exploration and Development of Space: Human Exploration and Development of Space programs provide human access to space on the Space Shuttle, develop and operate research platforms like the International Space Station, use human skills and expertise in space to conduct science and test new technologies, and support the development of space including new space applications. Highlights of Human Exploration and Development of Space accomplishments during this Administration include:

- NASA moved the International Space Station from a design plan with no hardware built to development, launch, and operation. In 1998, the first element of the International Space Station reached orbit, and in 2000 it received its first three-person crew, beginning permanent human occupancy. Most of the U.S. flight elements needed to finish assembly are now at the launch site.
- Through the Space Flight Operations Contract, NASA successfully consolidated 21

Space Shuttle contracts under a single prime contractor, reducing the Space Shuttle budget from \$3.7 billion in 1992 to \$3.0 billion in 2000, and safely flew 48 flights.

- NASA implemented Space Shuttle upgrades including the Super Lightweight Tank, the Alternate Turbo-Pump, and the Large-Throat Main Combustion Chamber to improve Shuttle safety by a factor of six and increase performance to the Space Station by more than two-thirds.

National Science Foundation

As the only agency of the Federal Government exclusively devoted to supporting basic scientific and engineering research and education, NSF has emerged as a leader and steward of the Nation's science and engineering enterprise. While NSF represents nearly four percent of Federal research and development spending, it supports more than half of the non-medical basic research conducted at academic institutions. NSF categorizes its investments in three strategic areas: people, ideas, and tools. Investments in these areas work in concert to support the agency's mission to maintain U.S. leadership in all aspects of science and engineering research and education. During this Administration, NSF funding increased by 61 percent from \$2.7 billion in 1993 to \$4.4 billion in 2001.

People: NSF is committed to facilitating the creation of a diverse, internationally competitive and globally-engaged work force of scientists, engineers and well-prepared citizens. Although only about 20 percent of NSF's annual budget is categorized as an investment in the "people" category, in actuality, every dollar NSF spends is an investment in people. Significant highlights of NSF funding for people during this Administration include:

- 36 Nobel Prizes awarded since 1993 recognize work supported by NSF (13 in Physics, nine in Chemistry, eight in Economics, and six in Physiology or Medicine). Six of the Nobel Laureates selected since 1993 began their graduate science careers as NSF Graduate Research Fellows.
- Bill Nye the Science Guy, an NSF-supported television series, received several Emmy awards including Outstanding Chil-

dren's Series. This informal education show promotes increased comprehension and application of science facts and concepts among its viewers.

- The Louis Stokes Alliances for Minority Participation program significantly increased the number of baccalaureate degrees earned by students from underrepresented groups. For example, the Florida/Georgia alliance has tripled the production of science and engineering baccalaureate degrees earned by underrepresented minorities in those States from 416 per year to 1,380 per year.

Ideas: Investments in ideas support cutting edge research that yields new and important discoveries and promotes the development of new knowledge and applications. More than half of NSF's annual budget is categorized as an investment in ideas. This includes support for individuals and small groups devoted both to disciplinary and cross-disciplinary research. Also included is funding for centers that address scientific and engineering questions and research problems that require long-term, coordinated efforts of many researchers. Significant highlights of NSF funding for ideas during this Administration follow.

- Scientists supported by NSF completed the first DNA genome sequence of the model plant, *Arabidopsis*, which will provide new information about chromosome structure, evolution, intracellular signaling, and disease resistance in plants. Among early findings is that this flowering plant has closely related versions of many human disease genes. That discovery is already offering clues about why certain human diseases produce the symptoms they do. It suggests that plants may eventually be useful not only as a source of novel medicines, but also as screening tools for testing the potential usefulness of experimental drugs.
- Clinical trials that have significantly improved detection of early stage cervical cancer were developed after an NSF-funded researcher demonstrated that fluorescence spectroscopy could be used to detect pre-cancerous cells.

- NSF-funded scientists uncovered the structural basis that explains a virus' ability to force host cells to manufacture the virus' own protein. This is important for understanding retroviruses, which are responsible for causing many cancers in vertebrates.
- NSF-funded scientists have made important contributions to our understanding of global climate change, including demonstrating that 1997, 1995, and 1990 were the warmest years since 1400 A.D. They also have shown that the 1990s were the warmest decade in the last 1000 years and that human-induced increases in greenhouse gases appear to be the dominant factor in the warming seen during the 20th Century.

Tools: Nearly 25 percent of NSF's annual budget is categorized as an investment in state-of-the-art tools for research and education, such as instrumentation and equipment, multi-user facilities, digital libraries, research resources, accelerators, telescopes, research vessels and aircraft and earthquake simulators. In addition, resources support large surveys and databases as well as computation and computing infrastructures for all fields of science, engineering, and education. Significant highlights of NSF funding for tools during this Administration include:

- The NSF Supercomputer Centers Program, and its Partnerships for Advanced Computational Infrastructure successor, have led the way in adding computational modeling to theory and experiment as means for developing scientific understanding. These centers have changed the way scientific phenomena are analyzed, modeled, and visualized.
- Two recently completed Gemini Telescopes will be used to help answer questions about how stars and planets form, the structure and evolution of the Milky Way and other galaxies, and the age and evolution of the universe. Images are among the sharpest ever obtained by a ground-based telescope, roughly the equivalent of resolving the separation between a set of auto headlights from 2,000 miles.

- The Laser Interferometer Gravitational-Wave Observatory project began as a collaboration between physicists and engineers to test the dynamical features of Einstein's theory of gravitation and to study the properties of intense gravitational fields from their radiation. Scientists eventually may be able to identify objects in deep space that cannot be "seen" from energy given off in the form of light, X-rays or other electromagnetic radiation.

Department of Energy

DOE's Office of Science is the single largest supporter of basic research in the physical sciences, averaging 40 percent of all Federal funds in this area over the past decade. The Office supports research at both universities and DOE's national laboratories across such varied disciplines as physics, chemistry, materials science, geology, environmental sciences, biology, applied mathematics, and computer science. Brief highlights of the Office of Science discoveries during this Administration follow.

- DOE, which began the Human Genome Project, is now finishing the human genetic map along with its two major partners, NIH and Britain's Wellcome Trust. DOE researchers completed a draft sequence of three of the 23 pairs of chromosomes in the human genome. The Human Genome Project has driven significant public and private developments in sequencing technology. As a result, the cost of sequencing a single base pair has fallen by more than a factor of 1,000. It is now practical to sequence the entire genome of a large number of organisms. To date, DOE has completed sequencing the genomes of 17 microbes with the genomes of another 28 microbes in various stages of completion.
- Researchers using the Lawrence Berkeley Laboratory's 88-inch cyclotron have extended the periodic table by discovering two new superheavy elements. International teams of researchers working at DOE's Fermilab have nearly completed the Standard Model of particle physics with the discovery of the top quark and detection of the tau neutrino. These accomplish-

ments bring the total discoveries by DOE and its predecessor agency to 18 of the periodic table's 27 man-made elements and 11 of the Standard Model's 12 constituents of matter.

- DOE researchers were the first to use positron emission tomography (PET) to create functional images of the human brain at work. This has opened up exciting new opportunities in brain research. DOE has a long history of achievements in advanced imaging technologies, including the development of PET.
- Three Nobel Prizes in chemistry and two Nobel Prizes in physics awarded since 1993 recognize work supported by DOE's Office of Science or its predecessor agencies. Examples of the prize-winning work include an explanation of how cells store and release energy in the form of adenosine triphosphate, the discovery of fullerenes, and the development of neutron scattering techniques. Fullerenes, cage-like forms of pure carbon, are the basis of an entirely new area of chemistry and are playing important roles in nanoscience. Neutron scattering is an important tool for studying a wide range of economically and scientifically important materials.
- DOE science is improving our understanding of the role of ecosystem processes in the global carbon cycle. New measurements from the DOE Ameriflux network have demonstrated how the exchange of carbon dioxide between vegetation and the atmosphere varies among seasons, and by region and ecosystem. They have also shown that some ecosystems previously thought to be carbon "sources" are actually storing carbon dioxide in the biosphere.

The Office of Science also constructs and operates the Federal Government's most extensive system of R&D facilities. These include particle and nuclear physics accelerators, synchrotron light sources, neutron scattering facilities, supercomputers, and the high-speed networks that connect scientists and their data. Each year, DOE's facilities are used by more than 15,000 researchers from universities, other Government agencies and private industry. Highlights of the Office of Science's

facility-related accomplishments during this Administration follow.

- Since 1993, the Office of Science has completed, on time and within budget, construction of the Advanced Photon Source, the Advanced Light Source, the Main Injector at Fermilab, the B-Factory at Stanford, the Relativistic Heavy Ion Collider, the Continuous Electron Beam Accelerator Facility, and the Environmental Molecular Sciences Laboratory. The National Spherical Torus Experiment, a fusion experimental facility, was completed below cost and ahead of schedule. Construction of these facilities represents an investment of more than \$2.6 billion.
- This Administration's Scientific User Facilities Initiatives in 1996 and 2001 have helped to dramatically increase the effectiveness and productivity of DOE's facilities. As an example, DOE's light sources now serve more than twice the total number of users and four times as many users from the life sciences as they did in 1993. Structural biologists are now producing better than seven times as many protein structures in a year using synchrotron light sources as they were in 1993.

- The Office of Science installed the first supercomputer available to the civilian research community to exceed the one teraflop peak performance and supported the development of the first civilian scientific application to achieve over one teraflop actual performance.

Tax Incentives

Along with direct spending on R&D, the Federal Government has used tax preferences to encourage private investment in research. Current law provides a 20-percent research tax credit for research and experimentation expenditures above a certain base amount. The Tax Relief Extension Act of 1999 extended the credit from July 1, 1999, through June 30, 2004. In addition, the 1999 Act increased by one percentage point the credit rate applicable under the alternative incremental research credit, and expanded the definition of qualified research to include research undertaken in Puerto Rico and possessions of the United States. A permanent tax provision also lets companies deduct, up front, the costs of certain kinds of research and experimentation, rather than capitalize these costs. During this Administration, tax credits and other preferences for R&D increased 133 percent from \$3.3 billion in 1993 to \$7.7 billion in 2001.

5. ENERGY

Table 5-1. Federal Resources in Support of Energy
(Dollar amounts in millions)

Function 270	1993 Actual	2001 Estimate	Percent Change: 1993–2001
Spending:			
Discretionary budget authority	5,832	3,099	¹ –47%
Mandatory outlays	–1,240	–3,636	193%
Credit Activity:			
Direct loan disbursements	1,508	1,916	27%
Guaranteed loans	1	30	NA
Tax expenditures	2,420	2,100	–13%

NA = Not applicable.

¹The decline in discretionary budget authority is largely the result of restructuring accounts in this function since 1993. Selected funding was moved to the General Science, Space, and Technology function and to the National Defense function.

Federal energy programs contribute to energy security, economic prosperity, and environmental protection through a range of activities, from protecting against disruptions in petroleum supplies, to conducting research on renewable energy sources, to cleaning up Department of Energy (DOE) facilities contaminated by years of nuclear-related research activities. In addition to the spending programs, the Federal Government currently allocates about \$2 billion a year in tax benefits, mainly to encourage development of traditional and alternative energy sources.

DOE and Health and Human Services (HHS) also provide grants to States that assist low-income residents with energy: DOE provides grants to States to weatherize low-income homes, and HHS' Low-Income Heating and Energy Assistance Program (LIHEAP) provides grants to help low-income families pay their energy bills and also supplements the home weatherization program. LIHEAP funding, however, is included in the Income Security function. (See Chapter 14.)

Energy efficiency rules are also an important part of the Government's energy program. For example, as a result of appliance efficiency

rules, consumers are saving approximately \$4.6 billion annually in reduced energy costs.

The Federal Government has a longstanding and evolving role in energy. Some programs, such as DOE's Weatherization Assistance Program and HHS' LIHEAP, work with State agencies through block grants. However, most Federal energy programs and agencies have no State or private counterparts and focus on national concerns. The federally-owned Strategic Petroleum Reserve, for instance, protects against supply disruptions and the resulting consumer price shocks, while Federal regulators protect public health and the environment and ensure fair, efficient energy rates. DOE's applied research and development (R&D) programs in fossil, nuclear, solar/renewable energy, and energy conservation speed the development of technologies, frequently through cost-shared partnerships with industry. These are examples of the basic principles that form the framework of the Clinton-Gore Administration's energy policy:

- reliance on competitive markets as the "first principle" of energy policy;
- support for energy science and technology;

- promotion of Government/industry/consumer partnerships;
- use of targeted incentives and regulations to promote positive actions and to help internalize externalities; and,
- facilitation of international cooperation.

The discussion that follows is organized around the following seven themes: applied energy R&D; environmental quality; electricity production and power marketing; petroleum supplies and emergency reserves; energy regulation; DOE corporate management and procurement reform; and, the operation of the Nuclear Regulatory Commission (NRC).

Applied Energy R&D

DOE's energy R&D investments cover a broad array of resources and technologies to make the production and use of all forms of energy—including solar and renewables, fossil, and nuclear—more efficient and less environmentally damaging. These investments reach beyond what the marketplace demands today, enhancing our Nation's energy security, laying the foundation for a more sustainable energy future, and opening major international markets for manufacturers of advanced U.S. technology.

DOE's energy efficiency, renewable energy, and electric energy systems programs, along with elements of the Fossil Energy and Nuclear Energy R&D programs, form a major part of the Administration's Climate Change Technology Initiative, which is intended to find ways to reduce emissions of carbon dioxide and other greenhouse gases in ways that benefit our economy rather than constrain it.

Energy Conservation: DOE's energy conservation programs are designed to improve the fuel economy of various transportation modes, increase the productivity of our most energy-intensive industries, and improve the energy efficiency of buildings and appliances. They also include grants to States to fund energy-efficiency programs and low-income home weatherization. Each of these activities benefits our economy and reduces emissions of carbon dioxide and other greenhouse gases, and many rely on partnerships with the private sector for cost-sharing and commercialization.

During this Administration, funding for energy conservation has risen from \$576 million to \$817 million, a 42-percent increase. A basic societal improvement to which these programs have contributed is that the "energy intensity" of the Nation's economy—the average amount of energy society uses to create a unit of Gross Domestic Product—has decreased by 12 percent since 1992.

DOE supports a broad research portfolio for energy conservation. It is difficult to predict in advance which particular technologies will be the biggest commercial successes, but a study in the mid-1990s showed that just five—heat-reflecting windows, high-efficiency lights, advanced oil-burners, high-efficiency electric motors and compressors, and software for designing energy-efficient buildings—could be proven to have saved consumers over \$15 billion in energy costs at that time, and the cumulative consumer savings from those technologies today are estimated at more than \$30 billion.

In 1994, the Administration worked with the U.S. auto industry to create the Partnership for a New Generation of Vehicles (PNGV) with a goal of creating cars with triple the fuel economy of conventional vehicles by 2004. This past year, all three Detroit automakers demonstrated "hybrid-electric" concept cars capable of offering anywhere from 70 to 80 mpg in a mid-sized five-passenger car. Some PNGV technologies are already in use or will be introduced shortly into production. PNGV has not only enjoyed considerable R&D success, it has also served as a model for Government-industry R&D collaboration and partnership.

Over the last six years, nearly 80 communities joined the Administration's Clean Cities effort, deploying more than 160,000 alternative-fuel vehicles (AFVs) in public and private fleets and building over 4,800 alternative refueling stations. The vehicles, operating on natural gas, ethanol, propane, and electricity, will reduce oil use by an estimated 125 million gallons per year. AFVs in Clean Cities have already reduced criteria pollutant emissions by more than 100,000 tons.

DOE's Federal Energy Management Program reduces energy costs to the Federal Government—the largest power user in the country—by helping other agencies improve their energy efficiency. The Administration implemented the Energy Policy Act of 1992 and met its goal of a 20-percent reduction in energy use per square foot by 2000. More recently, President Clinton signed Executive Order 13123, setting new energy goals for 2010 to reduce energy consumption by 35 percent in Federal office buildings and by 25 percent in Federal labs and industrial facilities, to diminish greenhouse gas emissions by 30 percent, to improve water efficiency, and to increase use of renewable energy technology.

DOE's Office of Industrial Technologies has seen roughly 140 of their technologies commercialized; annual energy savings to the U.S. economy from those is about 170 trillion Btu, with another 90 trillion Btu saved annually from their industry assessment and technology-transfer programs. Major commercial successes include the Advanced Turbine Systems program, which has helped industry develop turbines that are 15 percent more efficient than previous models, have lower emissions, and produce electricity for cogeneration systems at a lower price.

DOE's energy conservation program also provides grants to States to fund weatherization improvements in low-income residents' homes. Those improvements often take advantage of the improved building materials and efficient heating systems developed in the R&D program. Over the past eight years, DOE's weatherization program has weatherized approximately 689,000 low-income homes. Over the estimated 20-year life of those improvements, the occupants will save \$2.1 billion on their energy bills and will cut 4.9 million metric tons of carbon emissions. As noted earlier, LIHEAP also provides grants to States, which assist low-income residents in paying their energy bills and also supplement the DOE weatherization program grants.

Solar and Renewable Resources: DOE's solar and renewable resources programs develop technologies that will help the Nation use its abundant renewable resources such as wind, solar, and biomass to produce low-cost,

clean energy that contributes no net carbon dioxide to the atmosphere. The United States is the world's technology leader in wind energy, with a growing export market and production costs that have fallen dramatically. In addition, photovoltaics are becoming more useful in remote power applications, and new biofuels plants are being constructed.

The 1990s have seen considerable progress in the use and cost-competitiveness of solar and renewable energy. Wind power was the fastest-growing source of electricity in the world, and in the U.S. wind power has dropped in price to less than five cents per kilowatt-hour (kWh) in good wind sites. (The program has set a very ambitious goal of reducing those costs to 2.5 cents per kWh in 10 years.) From 1990 to 1999, the production cost per watt of photovoltaic (PV) panels has dropped by a factor of six, and shipments of PV panels have roughly tripled. The cost of geothermal electricity dropped by one-third between 1990 and 1999, to as little as 3.5 cents per kWh.

The Administration's Million Solar Roofs initiative was established to facilitate the placement of one million solar roof installations (a mixture of solar heat/hot water and photovoltaics) by 2010. DOE has now received commitments from Federal agencies, State, and local governments, and private developers for more than one million solar energy systems, and nearly 100,000 systems have already been installed.

Electric Energy Systems: These programs focus on technical advances in electricity transmission and storage and on the efficiency and reliability of the Nation's electrical grid. The largest activity is in high-temperature superconductivity R&D, which can greatly increase the efficiency of generators and heavy electrical machinery, and which can dramatically increase the carrying capacity of high-voltage transmission lines. The practical fruits of a decade of basic and applied materials research are just emerging. In 1999, for the first time in the world, a high-temperature superconducting cable provided commercial grid electricity to a manufacturing plant—enough electricity to power a small town. This year, DOE will make available “second generation”

high-temperature superconducting wires in continuous lengths.

Hydrogen: Prior to 1993, the only practical technology for extracting hydrogen from raw fuels was large-scale steam reforming, requiring exotic alloys to handle the extreme temperatures and pressures. DOE research in the past eight years has pursued several avenues. Steam reformers aided by catalysts can operate at much lower temperatures, allowing the use of conventional, less expensive alloys and reducing the capital cost of reformers. Progress has also been made in technologies such as plasma reformers and proton-exchange membranes that will allow production of hydrogen on a smaller, more distributed scale—directly at fueling stations, for instance. DOE has also developed advanced storage tanks for hydrogen-fueled vehicles that can store roughly three times as much hydrogen (and therefore offer three times the driving range) as conventional tanks, and has made considerable progress on advanced materials such as carbon nanotubes that will allow auto manufacturers much more flexibility in designing fuel systems than they ever have had before.

Fossil Energy R&D: Fossil fuel energy R&D programs help industry develop advanced technologies to produce and use coal, oil, and gas resources more efficiently and cleanly. Over the past eight years, federally-funded development of clean, highly-efficient gas-fired and coal-fired generating systems aimed to reduce greenhouse gas and other air-pollution emissions, while reducing electricity costs compared to currently available technologies. These programs also include efforts to discover effective, efficient, and economical means of sequestering carbon dioxide. The programs also help boost the domestic production of oil and natural gas by funding R&D projects with industry to cut exploration, development, and production costs.

Among the program's accomplishments:

- In 1999, DOE helped demonstrate a more efficient and less costly drilling and completion technology that could ultimately add six trillion cubic feet of domestic gas reserves, demonstrated four advanced oil production enhancement technologies that contributed to adding 46 million barrels of incremental domestic oil reserves, and

began full-scale component testing of two advanced, utility-scale turbines that are more efficient and less polluting than current technologies.

- In 2000, DOE's Advanced Turbine Systems effort with industry introduced the first gas turbines to exceed 60-percent efficiency when operated in combined-cycle mode—the “four minute mile” of turbine technology. When the effort began in the early 1990s, the best turbine systems had efficiencies of only about 50 percent. The new, higher efficiency can reduce operating costs by about 10 percent, saving as much as \$200 million over the life of a typical gas-fired 400–500 megawatt combined-cycle plant, while also reducing pollution and greenhouse gas emissions.

Nuclear Energy R&D: Nuclear fission power is a widely used technology, providing about 19 percent of the electric power consumed in the United States and about 17 percent worldwide without generating greenhouse gases. If fossil plants were used to produce the amount of electricity generated by these nuclear plants, more than 300 million additional metric tons of carbon would be emitted each year. Continued R&D addressing the issues that threaten the acceptance and viability of nuclear fission in the United States will help determine whether nuclear fission can continue to supply increasing amounts of economically-priced energy while reducing greenhouse gas emissions. The Administration's investments have focused on advancing future nuclear power plant designs, the safety and life-extension of existing reactors, and the safe long-term storage of spent nuclear fuel (discussed later in this chapter under Environmental Quality).

Based on the recommendations of the President's Committee of Advisors on Science and Technology (PCAST), the Nuclear Energy Research Initiative (NERI) was initiated in 1999 to improve the economics, proliferation resistance, waste management, and safety of advanced nuclear energy systems for the longer-term future. In its first two years, the NERI program has awarded a total of 56 innovative R&D projects on a competitive, peer-reviewed basis to universities, national laboratories, and industry. Other

recommendations from PCAST led to the creation of the Nuclear Energy Plant Optimization program to consult cost-shared R&D with industry to develop new technologies to manage the long-term effects of ageing and enhance the reliability and safety of existing U.S. nuclear power plants. Fifteen projects have begun in the first two years of this initiative.

Uranium Enrichment: In 1998, the Administration successfully privatized the U.S. Enrichment Corporation (USEC). The Treasury Department received about \$1.7 billion from the sale of public stock and proceeds from debt equity. This sale through a public offering was the biggest privatization since 1986. USEC was established as a Government corporation under legislation passed by the Congress in the Energy Policy Act of 1992, which placed it on a path toward privatization, based on the belief that the private sector can perform this business activity better than the Federal Government.

Environmental Quality

Environmental Management: The Non-Defense Environmental Management and Uranium Enrichment Decontamination and Decommissioning Fund programs are part of the Nation's most complex environmental cleanup program (the remainder being the Defense Environmental Management program), addressing the results of more than five decades of research and production of nuclear energy technology and materials. During this Administration, these programs reduced safety and health risks and managed radioactive and hazardous wastes to protect the environment at: (1) sites run by DOE's predecessor agencies; (2) sites contaminated by uranium and thorium production from the 1950s to the 1970s; (3) DOE's inactive uranium processing plant in Oak Ridge, Tennessee; (4) New York's defunct spent nuclear fuel reprocessing center; and, (5) the gaseous diffusion plants operated by the now-private USEC.

The successes of these activities ranged from the removal of low-level radioactive contamination at sites accessible to the public such as the Ventron site in Beverly, Massachusetts, to meeting the technical challenge of solidifying high-level radioactive waste at the

West Valley Demonstration Project vitrification facility. At the beginning of 1993, remedial action was completed at 23 of the 113 sites in the cleanup program. Through 1999, cleanup activities were completed at an additional 46 sites. In 2000, this Administration continued its focus on protecting human health and the environment by completing remediation of the King Avenue site in Columbus, Ohio, and the General Atomics facility north of San Diego, California, for a total of 48 sites cleaned up since 1993.

Radioactive Waste: DOE's Civilian Radioactive Waste Management Program was created by the Nuclear Waste Policy Act (NWPA) in 1982 to develop a geologic repository for the disposal of the Nation's spent nuclear fuel from commercial nuclear reactors and high-level radioactive waste from the nuclear weapons program.

Since 1994, the program has focused resources on completing an evaluation of the technical suitability of the Yucca Mountain candidate repository site. This effort has included construction of the Exploratory Studies Facility, a 25-foot diameter, 4.9-mile tunnel that provides direct access to the geologic formation that may house a repository block. In 1998, DOE completed a viability assessment concluding that the Yucca Mountain site remains a promising candidate for a geologic repository. It also identified areas for further investigation before a decision can be made on whether or not the site should be recommended. In July 1999, DOE issued a draft environmental impact statement for the Yucca Mountain site. It also evaluated potential impacts from the transportation of spent fuel and high-level waste to it. The Environmental Protection Agency (EPA), under the authority of the Energy Policy Act, has issued a draft site-specific radiation standard for Yucca Mountain. This regulatory framework will be complemented by NRC, which will adopt EPA's standards in its licensing regulation. DOE expects to revise its site recommendation guidelines to conform to these regulations.

DOE reached an agreement with PECO Energy Company in July 2000 to settle potential litigation over spent fuel storage costs that PECO has incurred due to the

Department's delay in commencing spent fuel acceptance. This agreement is a model for settlement negotiations with other utilities who have filed suit against the Department for failure to begin waste acceptance in 1998, as required under the NWPA.

DOE expects to complete a "Site Recommendation Consideration Report" by the end of 2000, to be followed by a Secretarial determination in 2001 on whether or not to recommend the Yucca Mountain site to the President. The report presents the technical basis for a site recommendation.

DOE Lands: During the past eight years, over 300,000 acres of land at DOE sites have been set aside as environmental reserves to preserve unique habitat and animal species permanently.

Electricity Production and Power Marketing

Power Marketing Administrations: The four Federal Power Marketing Administrations, or PMAs, (Bonneville, Southeastern, Southwestern, and Western) market electricity generated at 127 multi-purpose Federal dams and manage 33,000 miles of federally-owned transmission lines in 34 States. The PMAs sell about five percent of the Nation's electricity, primarily to preferred customers such as counties, cities, and publicly-owned utilities. The PMAs face growing challenges as the electricity industry moves toward open, competitive markets.

- Over the past eight years, each PMA has operated its transmission system to ensure that service is continuous, reliable, and balanced—that is, each PMA system achieved a "pass" rating each month (or its equivalent in past years) under the North American Electric Reliability Council performance standards. These measures are used industry-wide and indicate the reliability and quality of power provided by utilities.
- The Administration proposal to sell Alaska Power Administration assets to current customers was signed into law on November 28, 1995. The Eklutna and Snettisham projects were sold in 1998 for a cash payment of \$88 million.

- The Administration modified the purchase power and wheeling activities of Southeastern, Southwestern, and Western PMAs to phase down and eliminate Federal appropriations to support these activities after 2004. This will encourage PMA customers to assume additional responsibility for the purchase and delivery of power rather than relying on Federal PMAs.

Tennessee Valley Authority (TVA): TVA is a Federal Government corporation and one of the three largest electric power suppliers in the country. TVA produces four percent of the Nation's electric power and transmits that power over its 17,000 mile transmission network to 158 municipal utilities and rural electric cooperatives that serve eight and a half million customers in seven States.

During the past eight years, TVA has taken important steps to improve its power program's operating and financial performance:

- In 1992, TVA's nuclear power program faced tough management challenges. Two completed nuclear power units had been out of service for seven years and one unit under construction was years behind schedule. Today, TVA has turned that situation around. It currently has five nuclear units on line and they are part of an award-winning nuclear power program.
- In 1997, TVA announced its 10-Year Business Plan, a long-term financial strategy designed to ensure that the Federal power agency reduces its outstanding debt, operates on a sound financial footing, and is prepared to supply power at competitive prices when the Nation's electric power industry is restructured. Through the end of 2000, TVA has reduced its long-term debt by more than \$1.7 billion. Before 1997, TVA's debt had increased every year for 35 years.
- TVA held rates steady over the past decade with only one 5.5 percent rate increase. During the same period the cost of living increased more than 40 percent.

(For information on TVA's non-power activities, see Chapter 10, "Community and Regional Development.")

Rural Utilities Service: The Department of Agriculture's (USDA's) Rural Utilities Service (RUS) provides electrification, telecommunication, and distance learning and telemedicine grants and loans. RUS provides direct and guaranteed loans to rural electric cooperatives, public bodies, nonprofit associations, and other utilities in rural areas for generating, transmitting, and distributing electricity. Since 1993, RUS has supported construction of 97,000 miles of new or upgraded electric transmission and distribution lines, and has approved loans for over 2,500 megawatts of new electric generation capacity.

In order to provide electric service to rural areas and minimize the potential for loan defaults, RUS works with the electric service providers in meeting the demands of a changing industry. For example, in 1997, RUS assisted Oglethorpe Power Corporation (OPC) into "unbundling" operating companies into generation, transmission, and operating companies. The restructuring of OPC resulted in better and lower cost of service to OPC's consumers in Georgia and improved the security of RUS loans to OPC and its member distribution cooperatives. In addition, from 1997 to 2000, RUS's assistance in the merger of Tri-state Generation and Transmission Association and Plains Electric Generation and Transmission Cooperative, serving Arizona, New Mexico, Colorado, Wyoming, and Nebraska, prevented the need for \$340 million in RUS debt forgiveness from the Government.

In addition, RUS assists in closing the "digital divide" for rural communities that have limited access to learning, health care expertise, and telecommunications. Through RUS loans, the number of miles of fiber optic lines in rural America have more than doubled since 1993. RUS assisted in bringing first-time telephone service to the San Carlos Apache Nation in Arizona in 1999. RUS financing has also facilitated the extension of mobile wireless and broadband services to rural America. The RUS Distance Learning and Telemedicine Program, started in 1993, was designed specifically to meet the educational and health care needs of rural America by financing computer links in rural schools and hospitals to transmit educational programming and medical resources from urban areas. This program has funded 383

projects in 48 States and territories totaling \$102 million, including \$15 million for 52 projects for Native American communities. In addition, to improve access to the Internet and to further close the digital divide, the Administration's 2001 Budget proposal was enacted for RUS to provide over \$100 million in USDA assisted financing for a pilot program designed to increase the broadband access to rural communities.

Petroleum Supplies and Emergency Reserves

Strategic Petroleum Reserve (SPR): DOE maintains SPR and invests in R&D to protect against petroleum supply disruptions and reduce the environmental impacts of energy production and use. SPR was authorized in 1975, in response to the oil embargoes of the early 1970s. The Reserve now holds about 540 million barrels of crude oil in underground salt caverns at four Gulf Coast sites. SPR helps protect the economy and provide flexibility for the Nation's foreign policy in case of a severe energy supply disruption. The Government has begun to acquire royalty oil from off-shore leases and is adding 28 million barrels to SPR, the first increase since 1994.

DOE recently completed a facilities life-extension program that marked a major milestone for SPR. Most SPR facilities were constructed in the late 1970's and early 1980's and were nearing the end of their 20-year design life. Under the life-extension program, DOE redesigned and replaced critical systems and equipment that had deteriorated, ensuring that the Reserve will be able to operate as designed for the next 25 years—achieving a draw-down rate of four million barrels per day within 15 days of a Presidential determination, and maintaining that rate for at least 90 days. The improvements also have reduced SPR's operating costs by \$12–\$15 million per year.

Regional Heating-Oil Reserve: DOE created the Northeast Home Heating Oil Reserve in 2000 by exchanging oil from the Strategic Petroleum Reserve. This regional reserve will act as an emergency source of heating oil to residents in New England and the northeast in the event of a winter shortage of heating oil.

Elk Hills Privatization: On February 5, 1998, DOE concluded the largest divestiture of Federal property in history. As part of the Administration's efforts to return to the private sector those Federal functions that operate more like commercial businesses, the Elk Hills Naval Petroleum Reserve in California was sold to Occidental Petroleum for \$3.7 billion. Revenue received from the sale was deposited in the U.S. Treasury for debt reduction.

Energy Regulation

The Federal Government's regulation of energy industries is designed to protect public health, achieve environmental and energy goals, improve energy security, and promote fair and efficient interstate energy markets.

Appliance Efficiency Rules: DOE improves the Nation's use of energy resources through its appliance energy efficiency program, which specifies minimum levels of energy efficiency for major home appliances, such as water heaters, air conditioners, and refrigerators, and for commercial-scale heating and cooling components. The initial efficiency standards were established in legislation, and DOE periodically issues rules to revise those standards or to create standards for new categories of equipment. Over the last eight years, including this year, DOE will have issued seven new or revised final rules. As a result of the appliance efficiency rules that DOE administers, consumers are saving approximately \$4.6 billion annually in reduced energy costs.

Federal Energy Regulatory Commission (FERC): FERC has been at the forefront of the national effort to introduce competition into previously regulated natural gas and electric power commodity markets. Over the past eight years, the Commission's focus has been shifting from command-and-control (setting prices and service offerings for individual companies) to oversight and monitoring of regional and national markets. Early during this period, the Commission implemented Order No. 636, completing the final major step in restructuring the natural gas transportation industry by requiring natural gas pipelines to separate their sales and transportation services and allow open access to their facilities. FERC also

substantially streamlined oil pipeline rates through indexing. In 1996, the Commission began to address the generic need for more competition in electric power, issuing Order No. 888. This order required all public utilities that own, operate, or control interstate transmission facilities to offer others the same transmission service they provide themselves. Also in 1996, the Commission issued a merger policy statement, giving guidance for preparing electric merger applications and paving the way for quicker Commission response. Order No. 642, issued in November 2000, finalized the merger policy.

In 2000, FERC continued the promotion of competition in electric markets and fine-tuned aspects of natural gas transportation markets. Order No. 2000 will lead to the establishment of regional transmission organizations, providing crucial support for competition in the electric industry. Order No. 637 requires natural gas pipelines to take measures to increase the transparency and efficiency of the pipeline grid. It also temporarily removes price caps from the resale market. While undertaking these new policy directions, the Commission has steadfastly maintained its responsibility to protect consumers from potential market power abuse, applying traditional cost-based regulation as necessary. In addition, FERC has made significant accomplishments in the area of energy projects, including an alternative licensing process for hydropower projects.

DOE Corporate Management and Procurement Reform

Reducing the size of DOE was one of the Administration's "reinventing Government" goals. Because so much of DOE's work is performed by contractors, simply reducing the number of civil service employees would not have a great effect on the total effective size of the agency, so reductions in contractor employees were also sought. Over eight years, direct employment by DOE has been reduced from 13,000 full-time equivalents (FTE) to 10,200 FTE, and contractor employment has been reduced from 148,000 FTE to 101,000 FTE.

Part of the reduction in contractor FTE is attributable to better contract management at DOE, which has been an Administration management priority. Over 80 percent of DOE's budget is spent through contracts, many of them large multi-billion, long-term contracts to manage and operate facilities. The Administration has been able to get DOE to begin to use competitive, performance-based contracting procedures. Since 1994, DOE completed 28 management and operating (M&O) contracts worth more than \$40 billion. This exceeds the total number of M&O competitive contracts issued in the entire history of DOE and its predecessor agencies. In addition, in 1999, DOE created a project management office reporting to the Deputy Secretary to better plan and manage large projects. The office has implemented procedure which require programs to define cost, schedule and performance goals for all major projects. Projects that exceed or do not meet these goals are being placed on a "watch list" for monitoring by the Chief Operating Officer. These improved management practices will save millions of dollars in contract costs at DOE.

Nuclear Regulatory Commission (NRC)

NRC, an independent agency, regulates the Nation's 103 civilian nuclear reactors and 21,000 academic, medical, and industrial li-

censees, as well as the disposal of nuclear waste, in order to ensure public health and safety and to protect the environment. NRC international activities also promote adequate protection of U.S. interests in nonproliferation and the safe and secure use of nuclear materials in other countries. To meet the challenges of a restructured and deregulated electric utility industry, NRC is committed to adopting a more risk-informed and performance-based approach to regulation. This regulatory framework will focus NRC and licensee resources on the most safety-significant issues, while providing flexibility in how licensees meet NRC requirements.

While maintaining safety as its highest priority, over the past eight years, NRC has renewed the license applications for four nuclear plants providing each an additional 20 years of operation; implemented a new reactor oversight process, which focuses inspection efforts on those aspects that present the greatest risk; approved license transfers arising from the restructuring of the electric utility industry; approved two standard reactor designs and developed regulations that provide a more predictable and stable regulatory process for future reactor applications; and developed the regulatory framework necessary to review a potential DOE application to construct and operate a high level nuclear waste repository at Yucca Mountain, Nevada.

6. NATURAL RESOURCES AND ENVIRONMENT

Table 6-1. Federal Resources in Support of Natural Resources and Environment
(Dollar amounts in millions)

Function 300	1993 Actual	2001 Estimate	Percent Change: 1993-2001
Spending:			
Discretionary budget authority	21,405	28,778	34%
Mandatory outlays	168	157	-7%
Credit Activity:			
Direct loan disbursements	39	43	10%
Tax expenditures	1,595	1,550	-3%

The Nation faced a number of serious environmental problems in 1993. Neighborhoods were blighted by toxic waste dumps because only 12 percent of the Nation's worst sites had been cleaned up despite 12 years of Federal effort. Sixty-two million people lived in areas with drinking water that failed to meet Federal standards, and 150 million people lived in areas that failed to meet air quality standards. Further, many of the Nation's most well-known natural treasures, such as Yellowstone National Park, were endangered by the adverse effects of encroaching development.

President Clinton came into office committed to providing the American people with a cleaner environment, stronger communities, and a brighter future for families across the country. Since 1993, the President has invested in a common sense and cost-effective approach of using new technologies, pursuing tougher enforcement of environmental laws, strengthening public health standards, and protecting our irreplaceable national treasures.

As a result, the Nation has the cleanest environment and strongest economy in a generation. Almost four times as many Superfund sites were cleaned up during the Clinton-Gore Administration as in the previous 12 years. Compliance with drinking water stand-

ards increased from 83 percent of the population served by community water systems to 89 percent of the population, and the number of areas out of attainment with the ozone air quality standard dropped from 98 to 37. In addition, the Administration has protected from environmental harm tens of millions of acres of national parks and forests, national monuments and wilderness areas, from the red rock canyons of Utah to the Florida Everglades.

As a part of his effort to protect our environment and natural resources, the President promoted targeted investments in key environmental initiatives, and fought back numerous anti-environmental riders that would have traded hard-won environmental safeguards for short-term special interest gains. Table 6-2 compares 1993 and 2001 funding for high-priority environmental and natural resources programs in this and other Government function areas. In 2001, for the natural resources and environment function only (Table 6-1), the Congress enacted \$28.8 billion in discretionary budget authority to protect public health, the environment, manage Federal lands, conserve resources, provide recreational opportunities, and construct and operate water resources projects. This is an

Table 6-2. High-Priority Environmental and Natural Resource Programs

(Budget authority, dollar amounts in millions)

	1993 Actual	2001 Enacted	Percent Change: 1993–2001
Lands Legacy Initiative (DOI, USDA, NOAA) ¹	380	1,689	344%
Farm Conservation Initiative (USDA) (mandatory) ²	1,584	2,122	34%
Clean Energy Initiative (DOE, USDA, AID, DOC, TDA, EX-IM)	251	321	28%
Greening the Globe Initiative (AID, Treasury, USDA)	82	121	48%
Climate Change Technology Initiative (DOE, EPA, USDA, HUD)		1,239	NA
Clean Water Action Plan (EPA, USDA, DOI, NOAA, Corps)		2,303	NA
Salmon Habitat Restoration (NOAA, Corps)		231	NA
Endangered Species Act (DOI, NOAA)	75	178	137%
Department of Transportation (DOT):			
Mass Transit	3,774	6,274	66%
Congestion Mitigation and Air Quality	601	1,661	176%
Environmental Enhancements; Preservation Pilots	114	797	599%
Subtotal, DOT (Select programs)	4,489	8,732	95%
Department of the Interior (DOI):			
National Park Service Operating Program	984	1,472	50%
Bureau of Land Management Operating Program	638	817	28%
Fish & Wildlife Service Operating Program	531	777	46%
Subtotal, DOI (Select programs)	2,153	3,066	42%
Department of Agriculture (USDA):			
Forest Service Operating Program	1,319	1,968	49%
Natural Resources Conservation Service Operating Program	577	714	24%
Water/Wastewater Grants and Loans	508	644	27%
Subtotal, USDA (Select programs)	2,404	3,326	38%
Environmental Protection Agency (EPA):			
Operating Program	2,767	3,866	40%
Subtotal, All EPA	6,923	7,829	13%
Department of Energy (DOE):			
Energy Conservation and Efficiency (gross)	592	817	38%
Solar and Renewable Energy R&D (net)	249	376	51%
Federal Facilities Cleanup (Environmental Management Program)	6,396	6,317	-1%
Subtotal, DOE (Select programs)	7,237	7,510	4%
Department of Defense (DOD):			
Cleanup	1,604	2,068	29%
Environmental Compliance/Pollution Prevention/Conservation	2,227	2,215	-1%
Subtotal, DOD (Select programs)	3,831	4,283	12%
National Oceanic and Atmospheric Administration (NOAA):			
Fisheries and Protected Species	232	569	145%
Ocean and Coastal Management	121	429	255%
Ocean and Atmospheric Research	202	345	71%
Subtotal, NOAA (Select programs)	555	1,343	142%
Partnership for a New Generation of Vehicles (DOE, DOC, NSF, EPA, DOT)	236	NA	NA
U.S. Global Change Research (NASA, DOE, NSF, DOC, USDA, others)	1,323	1,700	28%
GLOBE—Global Environmental Education (NOAA, NASA, EPA, NSF)	11	NA	NA
Montreal Protocol (State, EPA)	25	38	52%
Global Environment Facility (Treasury)	108	NA	NA
Multilateral and Bilateral Assistance (International Programs/AID)	329	334	2%
Total ³	31,226	42,322	36%

NA = Not applicable.

¹Includes funding (i.e., coastal management assistance) that is not in the new conservation spending category.²Includes funding for the Conservation Reserve Program (CRP).³Total includes mandatory spending. Total adjusted to eliminate double counts.

Note: Agency abbreviations not explained above: AID (Agency for International Development), Corps (Army Corps of Engineers), DOC (Department of Commerce), DOE (Department of Energy), EX-IM (Export-Import Bank), HUD (Department of Housing and Urban Development), NASA (National Aeronautics and Space Administration), NSF (National Science Foundation), State (Department of State), and TDA (Trade and Development Agency, International Assistance Programs).

increase of \$7.4 billion, or 34 percent, over the \$21.4 billion spent in 1993.

Conservation and Land Management

Lands Legacy: In 1993, the effect of development and urban sprawl on parks, fragile coastal habitat, and open spaces was not as widely understood as it is today. In some areas, uncontrolled growth was undermining people's quality of life by fragmenting the parks and forests that provide outdoor recreation and threatening the ecosystems that provide habitat for wildlife and endangered species.

Over the past eight years, the Clinton-Gore Administration forged a consensus in support of reliable funding for conservation programs that temper the adverse environmental effects of rapid development. In 1999, the President announced his Lands Legacy Initiative, which would double conservation funding and provide dedicated, protected funding for: (1) land acquisition in national parks, forests, refuges, and other public lands; (2) grants to States and local communities to restore urban parks and forests, protect wildlife habitat, and plan for smart growth; and, (3) protection of marine sanctuaries, estuaries, and coastal areas. This led to the enactment in October 2000 of a new Conservation spending category under the Budget Enforcement Act that, from 2002 through 2006, will set aside about \$2 billion annually to be used only for specific conserva-

tion, preservation, and related programs. This category dedicates and protects funding to maintain and build upon current efforts preserving both the great places of this Nation and the green spaces of local communities.

The conservation investments in this category include funding for 25 distinct programs in six bureaus within the Departments of Agriculture (USDA), Commerce (DOC), and the Interior (DOI). The protected funding is allocated among six subcategories, plus an unallocated amount available to all subcategories. Actual funding levels for each program will be determined through the annual appropriations process. Table 6-3 shows subcategory allocations for 2002, plus the equivalent funding levels in prior years. The total amount of protected funding will increase each year, up to \$2.4 billion in 2006.

Forest Planning Improvements: The Administration made improved multiple-use forest planning one of its first and highest priorities for the USDA's Forest Service. In April 1993, President Clinton convened a Forest Conference in Portland, Oregon, to bring together scientists, the forest products industry, environmental groups, Indian Tribes, and other concerned citizens to discuss issues surrounding the management of Federal lands in the Pacific Northwest and northern California. In 1991, the Forest Service had been blocked by a court injunction from issuing new timber sales in this area because these sales threatened the habitat of the northern spotted owl.

Table 6-3. Lands Legacy¹
(Budget authority, in millions of dollars)

Subcategory	Actual		2001 Enacted	Estimate	
	1993	2000		2002	2006 ²
Land and Water Conservation Fund (LWCF)	283	467	545	540	
State and Other Conservation Programs	26	68	270	300	
Urban and Historic Preservation	71	113	166	160	
Federal Deferred Maintenance—new funds			150	150	
Payments in Lieu of Taxes (PILT)—new funds			50	50	
NOAA/DOC Coastal Assistance	45	161	283	440	
Unallocated				120	
Total	425	809	1,464	1,760	2,400

¹ Only includes amounts in the new Conservation spending category.

² Total amounts increase each year up to \$2.4 billion in 2006. Actual funding levels for each subcategory for 2003–2006 will be determined through the annual appropriations process.

Working with all interested parties, the Forest Service issued standards one year later that broke the impasse by allowing timber sales and protecting key watersheds and valuable old-growth timber ecosystems. This difficult but successful process demonstrated again that economic and environmental interests are not mutually exclusive, and can be brought together through forest plans that support the multiple uses for which national forests were created.

This high standard was expanded and solidified in the new forest land and resource management planning regulation that was completed in October 2000. It replaced a 1982 regulation that emphasized timber production targets. In order to manage multiple uses in a forest, each national forest develops a comprehensive plan, incorporating substantial public involvement and sound science, to guide future forest management. National forests need to revise their forest plans to address new information, changed conditions, and/or new issues or trends. The forest plans cover the permitted uses on the national forest lands, including recreation uses, concession opportunities, timberland suitability, and off-road vehicle access. The new rule, emphasizing ecological sustainability, will better protect the environment, improve public participation in forest activities, and integrate science more effectively into Forest Service decisions.

Reform of Payments to States: Because Federal lands result in a reduction to a county's property tax base, the Federal Government returns a percentage of revenues generated from those lands, some of which are provided from timber sales, to the States to fund county schools and road maintenance. The need to address environmental concerns on Federal lands, however, has caused a reduction in timber sales over the last 10 years and a corresponding reduction in the Federal payments. To offset the fiscal impact of this reduction in Federal payments, the Administration proposed legislation that would provide for permanent, stable payments to States, made directly from the Treasury. These payments would be greater than the current payments and, importantly, sever the link between funding needs for county education and road maintenance from timber sales.

In November 2000, President Clinton signed the Secure Rural Schools and Community Self-Determination Act. This law will stabilize the payments to States and counties at historically high levels through 2006—increasing payments over five years by almost \$1 billion. The law also creates citizen advisory committees, and gives local communities the opportunity to fund environmental restoration projects on Federal and non-Federal lands for activities such as salmon habitat restoration or road maintenance projects.

Roadless Conservation Policy: Through comprehensive rulemaking accompanied by an environmental impact statement, the Administration established a policy to prohibit most road construction and reconstruction, as well as timber harvesting (except as needed for stewardship purposes) in inventoried roadless areas of the National Forest System. The Final Environmental Impact Statement estimated that almost 60 million acres would be protected. In developing the roadless plan, the Forest Service sought extensive public input, holding over 600 public meetings across the Nation. Hundreds of thousands of people participated in this public process, generating over one million comments. Roadless areas provide the large, relatively unbroken blocks of undisturbed lands that are critical to a variety of terrestrial and aquatic wildlife and plants, including hundreds of threatened, endangered, and sensitive species. Many inventoried roadless areas function as biological reserves and refuges for these species, and play a key role in maintaining native plant and animal biological diversity. If the Forest Service had not acted to protect these areas, there would have been an increased loss of biodiversity, due to timber harvest, road-related fragmentation, and invasion by non-native species.

Increased Agricultural Conservation: Fifty percent of the continental United States is crop, pasture, and rangeland, and this land is managed by two percent of the population who are the Nation's farmers and ranchers. USDA's conservation programs provide farmers and ranchers with financial and technical assistance to implement best management practices that protect the environment while sustaining agricultural productivity and boosting farm income. In response to growing natural resource concerns, USDA, during this

Administration, expanded its conservation mission beyond its original focus of preventing soil erosion and now provides assistance for a wide range of activities such as wetlands restoration, wildlife habitat improvement, and farmland protection. The Administration strongly supported conservation programs as a way to help farmers and ranchers that were facing economic hardship while providing environmental benefits to all Americans.

USDA conservation programs restore more of our Nation's wetlands than any other Federal program, and were an important part of the Administration's efforts to develop strong and consistent Federal wetlands policies and initiatives. USDA's largest wetlands program is the Wetlands Reserve Program (WRP), which removes agricultural wetlands from production through permanent or long-term easements and restores their natural hydrology. From 1993 to 2000, over 880,000 acres were enrolled in WRP, leaving only approximately 40,000 acres available under its 975,000 acre cumulative enrollment cap in 2001. However, in 2000, the Administration persuaded the Congress to increase the cap by 100,000 acres, extending WRP for at least one more year.

USDA's Conservation Reserve Program (CRP), authorized to enroll 36.4 million acres, is the Nation's largest private lands environmental program. It provides farmers with annual rental payments in exchange for removing land from production for 10–15 years and restoring natural vegetative cover. The Administration significantly improved this popular program by strengthening the Environmental Benefits Index used to determine eligibility and changing the way payment rates were determined. As a result, the environmental quality of enrolled acres has increased since 1993, resulting in greater natural resource protection, and taxpayers have saved hundreds of millions of dollars through the use of more accurate land rental rates based on different soil types.

USDA conservation programs also made up a key component of President Clinton's Clean Water Action Plan (CWAP), which provided a blueprint for restoring and protecting the Nation's waterways. As part of the CWAP:

- USDA jointly issued with EPA in March 1999 a Unified Strategy for Animal Feeding Operations, which called for all animal feeding operations (AFOs) to voluntarily implement comprehensive nutrient management plans (CNMPs) by 2009 to reduce polluted runoff. In support of this guidance and to help producers develop CNMPs, the Administration sought and obtained additional AFO technical assistance funds. As a result, USDA was able to steadily increase technical assistance funding for AFOs from \$37 million in 1999 to \$75 million enacted for 2001.
- USDA aggressively promoted Conservation Reserve Enhancement Program (CREP) agreements with States. CREP agreements combine Federal CRP funds with State funds to remove environmentally sensitive areas from production for at least 10 years and restore natural habitat. Currently, 13 States have CREP agreements with USDA. The New York agreement, which totals \$11 million (\$8 million Federal/\$3 million State), targets the Catskill and Delaware River watersheds that supply New York City's drinking water. It is estimated the agreement will reduce erosion in these watersheds by 36,000 tons of soil per year, allowing New York City to avoid constructing a \$6 billion drinking water filtration plant, while also improving habitat for endangered fish and wildlife.

Everglades Restoration: This Administration provided an unprecedented level of funding to restore the Everglades, which supports 68 threatened and endangered species, and protects the water supply and bolsters the economy of south Florida. Since 1993, the Administration directed over \$1.7 billion to land acquisition, water projects, and scientific research for Everglades restoration. Of this total, over \$500 million funded land acquisitions to help preserve the Everglades in perpetuity. Many of these funds resulted from the Vice President's 1996 Everglades restoration plan, which proposed \$100 million annually over four years for land acquisition.

In 1999, the Vice President presented to the Congress the Administration's long-term Everglades restoration plan. Developed by

private, corporate, and governmental stakeholders, it would increase water storage for environmental and urban water supplies, enhance natural water flows to the Everglades, and improve water quality. This Administration secured authorization of the first \$1.4 billion in projects for this plan in November 2000. The Federal Government and Florida will each pay half of the cost of this plan, estimated at \$7.8 billion over the next 35 years.

Wetlands Protection: The Administration achieved major successes in protecting the Nation's wetlands. Since 1993, Federal policies and programs protected wetlands by expanding technical and financial assistance to private landowners to enhance their land and water management practices; permitting and regulating developments affecting wetlands and our Nation's waters; restoring and creating wetlands; acquiring valuable wetlands from willing sellers; and educating the public about the benefits of wetlands. According to the Interior Department, these efforts contributed to an 80-percent decrease in the annual wetland loss rate—only 58,500 acres were lost on average from 1986–1997, down significantly from the average annual loss of 290,000 acres in the previous 10 years. This is the largest decrease in the annual wetland loss rate since the Federal Government began compiling the data in the 1950s. Federal activities included in this effort to protect wetlands are the Interior Department's Coastal and Partnership programs and its North American Waterfowl Management Plan; the Agriculture Department's Swampbuster and Wetlands and Conservation Reserve programs; the Army Corps of Engineers and the Environmental Protection Agency's Clean Water Act wetlands programs; the Administration's Clean Water Action Plan; and, various additions to national forests, parks, monuments, wildlife refuges, and other public lands.

California Bay-Delta Management: In August 2000, after more than five years of work, Federal and State policy officials signed a Record of Decision finalizing the long-term \$8.7 billion CALFED plan for the California Bay-Delta. This CALFED plan marks the Administration's successful creation, in cooperation with the State of California and other stakeholders, of a blueprint for effective man-

agement of the Bay-Delta and its water resources, designed to end sixty years of chronic conflict in the region. The 740,000-acre Bay-Delta ecosystem not only serves as habitat to more than 750 plant and animal species, but also supplies drinking water for two-thirds of all Californians and irrigation water for over seven million acres of the most highly productive agricultural land in the world. The CALFED plan will provide better water quality for all beneficial uses; enhance and increase habitat and ecological functions in the Bay-Delta to support plant and animal species; improve water supply reliability for agricultural, urban and environmental interests; and reduce the risk to economic activities, water supply, infrastructure, and the ecosystem from catastrophic breaching of Delta levees. To support the Bay-Delta during development of the long-term plan, the Administration also provided from 1998 to 2000 a total of \$190 million in funding to support initial Bay-Delta ecosystem restoration activities, and \$30 million for related CALFED efforts.

Preservation of Our Natural and Cultural Treasures: For the past eight years, this Administration took significant measures to conserve the Nation's natural and cultural heritage. Just as we now are grateful for the far-sighted efforts in the 19th and early 20th centuries to protect Yellowstone and Yosemite, so will Americans in the 21st Century appreciate the measures taken by the Administration to conserve our natural and cultural treasures. President Clinton protected more land in the lower 48 States under the 1906 Antiquities Act—over five million acres—than any other President, designating new national monuments and expanding others. Areas protected include: Grand Staircase-Escalante National Monument in Utah, consisting of almost 1.9 million acres of spectacular red rock canyon lands and artifacts from three cultures; Giant Sequoia National Monument in California, a 328,000 acre monument characterized by magnificent groves of towering giant sequoias (many as old as 3,200 years) interspersed among bold granitic domes, spires, and plunging gorges; Grand Canyon-Parashant National Monument in Arizona, a one million acre protection area situated on the Colorado Plateau along the North Rim of the Grand Canyon; and California Coastal National

Monument, made up of thousands of islands, rocks, exposed reefs, and pinnacles along the entire coast of California.

The Administration also worked to protect other natural treasures, such as the majestic California Desert, and has consistently supported legislation to protect other natural areas. Most recently, in 2000, the President signed legislation establishing the Colorado Canyons National Conservation Area in Colorado, the Santa Rosa/San Jacinto Mountains National Monument in California, and a new cooperative management and protection area for Steens Mountain in Oregon.

Baca Ranch: In July 2000, President Clinton signed the Valles Caldera Preservation Act authorizing the purchase of the Baca Ranch in New Mexico, a 95,000-acre swath of forested mountains and grassy valleys that includes the Valles Caldera, a one million-year-old collapsed volcano 14 miles in diameter. The purchase of this property was completed later that year, and title has now transferred to the Forest Service. Located in the Jemez Mountains region west of Santa Fe, the Ranch also includes one of the Nation's largest wild elk herds, and its acquisition will protect important resources, and will offer unparalleled recreation opportunities for the region and all Americans.

Headwaters Forest: During 1998, the Administration sought, and the Congress provided, \$250 million to acquire the Headwaters Forest in northern California, the largest privately owned stand of ancient redwoods. As part of the acquisition, the Administration ensured that Headwaters and its threatened and endangered inhabitant species were protected. To promote collaborative species protection, the Administration developed a scientifically sound habitat conservation plan. The Federal Government and the State of California jointly acquired Headwaters in 1999.

Yellowstone Park: To protect Yellowstone National Park, the Administration agreed in August 1996 to acquire Crown Butte, Inc.'s interest in the New World Mine in Montana, the potential development of which posed a severe environmental threat to Yellowstone's unique landscape and wildlife resources. In 1998, the Administration sought, and Congress provided, \$65 million to proceed with this

agreement, which will preserve one of the crown jewels of the National Park System. Crown Butte also dedicated \$22 million to clean up contamination at the site from earlier mining activities. The Administration worked with Crown Butte and other parties to complete the acquisition in 1999.

Millennium Initiative to Save America's Treasures: The First Lady led an Administration initiative to commemorate the Millennium by awarding grants through the National Park Service to support the preservation of the many historic sites and cultural artifacts that are also America's treasures. The Save America's Treasures program received \$95 million over three years to provide dollar-for-dollar matching grants for Federal, State, local, and private entities to restore and preserve cultural artifacts, documents, collections, and historic structures across the Nation. Since 1999, over 180 projects have been identified, with others yet to be selected. Projects include restoring the Star Spangled Banner at the Smithsonian in Washington, D.C., preserving archeological sites at Mesa Verde in Colorado, and stabilizing buildings at Angel Island Immigration Station in San Francisco.

Management of the Impacts of Wildfires on Communities and the Environment: The devastating wildfires of 2000 highlighted the need to reassess Federal efforts in addressing the impacts of wildfires on communities and the environment. Though wildfires are part of a natural process essential to the maintenance of many ecosystems, intensive efforts to suppress all wildfires over the last century have resulted in the buildup of fire fuels in many areas, and in unnaturally intense fires that spread rapidly, burn more completely, and are often extremely difficult to suppress. Such fires are more hazardous to communities and the environment. Through a 55-percent funding increase (to a total \$2.9 billion for 2001) the Administration took immediate steps to address the consequences of fires and problems that were highlighted during the 2000 fire season. Enacted funding increases totaling \$1.6 billion included: \$393 million for preparedness activities to ensure that the Federal wildland firefighting agencies have the necessary staff and equipment for future fire seasons; \$281 million for fire fuels reduction activities primarily to alleviate immediate threats to

communities in the wildland-urban interface; and \$227 million for the restoration of areas burned by the 2000 fires.

Promotion of Responsible Mining on the Public Lands: In 2000, the Department of the Interior's Bureau of Land Management (BLM) completed a multi-year process of revising the agency's "3809" surface mining regulations that govern hardrock mining on public lands. The scope and technology of hardrock mining operations on Federal lands have changed dramatically since 1980, when the "3809" regulations were originally published. The final regulations enable the agency to fulfill its duty under Federal law to prevent "unnecessary or undue degradation" of BLM lands from hardrock mining, thereby protecting public health, public land resources, and the environment. The rules will allow BLM to reject plans of operation for mines that would cause "substantial irreparable harm" to significant scientific, cultural, or environmental resources if the damage cannot be effectively mitigated. The regulations also strengthen bonding requirements for mining operators to ensure that these operators, rather than the Nation's taxpayers, bear the costs of reclaiming mined lands. In addition, the new regulations specifically address both cyanide leaching practices and acid mine drainage.

The Endangered Species Act (ESA)—Making It Work: Administration reforms have increased ESA flexibility, furthering the Act's ability to protect at-risk species and to reconcile species conservation with the needs of landowners. These reforms include voluntary conservation agreements (Candidate Conservation Agreement—CCAs) between Interior's Fish and Wildlife Service and private or public parties to implement conservation measures and monitor activities, preventing the need to add species to the Endangered Species list. In 2000, the Fish and Wildlife Service entered into 20 CCAs with private landowners or State and local governments that, together with other efforts, prevented six species from being listed. Since 1994, the Service has entered into more than 90 CCAs. In addition, early intervention processes implemented by the Department of Commerce's National Marine Fisheries Service to identify species before they become endangered effectively

eliminated the need to list five threatened aquatic species.

The Administration also significantly expanded the use of Habitat Conservation Plans (HCPs) to address potential conflicts between development and protection of listed species. HCPs give the private sector and State, local, and Tribal governments the flexibility to propose solutions that permit the protection of endangered species and conservation of habitat, while allowing for development. By the end of 2001, HCPs will protect over 40 million acres and an estimated 435 species.

The Administration was successful in defeating legislative riders that sought to weaken the Endangered Species Act. For example, the Administration worked with the Congress to allow the preservation of sea lions off the coast of Alaska, and the re-introduction of grizzly bears into the Bitterroot Mountains of Montana and Idaho. The Administration also worked with affected stakeholders to ensure that necessary changes to the operation of the Missouri River to protect listed species, including the pallid sturgeon, the lest tern and the piping plover, were allowed to go forward.

National Estuarine Research Reserves—Protecting and Restoring our Nation's Estuaries: Since 1993, Commerce's National Oceanic and Atmospheric Administration (NOAA) and its State partners increased the number of National Estuarine Research Reserves from 22 reserves in 19 States, to 25 reserves in 20 States, with two pending to be established in 2001. This expansion more than doubled the protected fragile estuarine habitat to over one million acres. Estuaries are essential to our environment, serving as filters where fresh water meets the ocean to help maintain the health of our coasts.

Protection of National Marine Sanctuaries: In 1993, 11 National Marine Sanctuaries protected 14,733 square nautical miles of valuable cultural and natural resources along our Nation's coasts. Today, as a result of this Administration's investments to preserve these unique and important sites, there are now 13 Marine Sanctuaries covering 18,000 square nautical miles of sensitive underwater habitat and submerged cultural resources, including the newest sanctuary in the

Great Lakes. Other sanctuaries protect whales off the coast of Hawaii, and splendid coral reefs around the Florida Keys and American Samoa. In December 2000, the President designated the first ever Northwestern Hawaiian Islands Coral Reef Reserve protecting almost 100,000 square nautical miles.

Increased Participation in Coastal Zone Management: The number of States participating in the Coastal Zone Management program expanded from 29 in 1993 to 33 of 35 possible participants today. These States, working in partnership with NOAA, developed voluntary, comprehensive coastal management programs to keep U.S. coastlines healthy and productive. While no States had approved Coastal Zone Management Non-point Pollution Control programs in 1993, all of the 33 States now have fully or conditionally approved Non-point Pollution Control Programs and the rest have conditionally approved programs to reduce pollution from runoff, one of the greatest remaining threats to our Nation's water quality.

Restoration of Ocean Resources: The National Oceans Conference, held in June 1998, drew together for the first time a full array of ocean interests, including government, industry, science, and conservation. The Conference resulted in new initiatives, including steps to restore coastal reefs, rebuild marine fisheries, preserve freedom of the seas, provide public access to military data and technology, enhance the competitiveness of America's ports, and protect our National marine sanctuaries from oil drilling. A follow-up report to the President and Vice President on the National Oceans Conference was issued in September 1999, which highlighted the importance of preserving the oceans' complex and delicate balances. In keeping with the recommendations of the report, the Executive Office of the President convened the Ocean Report Task Force to accomplish key, specific oceans recommendations. The work of this task force will be concluded shortly, and has been very successful. Accomplishments include: gear restrictions protecting northern right whales; expanded enforcement capabilities for environmental ocean crime detection; greater protection for sea turtles; and increased funding for marine activities.

Scientific Support for Natural Resources: The management of land and water, and natural resource protection must be based on sound and objective natural resource science.

U.S. Geological Survey (USGS): The Department of the Interior's USGS provides research and scientific information to land managers and the public to better understand ecosystems and species, land and water resources, and natural hazards. Over the past eight years, USGS became more responsive to the Nation's pressing and complex natural resource issues by delivering scientific analysis, products, and services in a useful, usable format to land managers, other decision-makers, and the public. USGS adopted a customer-driven focus to enhance the relevance and usefulness of its scientific information, and led the Government in the standardization of scientific information and digital data through major infrastructure efforts such as the National Biological Information Infrastructure. For 2001, USGS also received increased funding to expand State partnerships to acquire and deliver scientific information for decision-making. Examples of significant USGS accomplishments since 1993 include:

- ***Real-time Data Availability***—USGS operates national networks of stream gauges and seismometers to monitor flooding and earthquake activity. USGS accelerated the development of real-time hazards information delivery through significant investments to modernize and improve these networks and other hazard networks and provide information in real-time to the public.
- ***Assessment of the Nation's Biological Resources at Century End***— In June 1999, USGS released the first large-scale assessment of the Nation's natural resources in a two-volume report, *Status and Trends of the Nation's Biological Resources*. This report synthesizes current information within a historical perspective to document how the Nation's biological resources are changing.

National Oceanic and Atmospheric Administration (NOAA): The Administration's support for the modernization of NOAA's National Weather Service (NWS) and for the data

collected by NOAA's National Environmental Satellite and Data Information Service greatly improved weather forecasts and flood and tornado warnings. Support to its Office of Oceanic and Atmospheric Research provided advances that now enable NOAA to predict El Nino events with a level of skill and enough lead time that the national and international economies can save billions of dollars a year in avoidable costs.

The benefits of the NWS modernization and associated restructuring are dramatic and have set the standard for weather agencies worldwide. NWS's modernization increased warning lead time for flash floods from 22 minutes in 1993 to an estimated 55 minutes in 2000, and the accuracy of flash flood warning from 71 percent in 1993 to an estimated 86 percent in 2000; modernization also increased the lead time for tornado warnings by 100 percent and the accuracy of tornado warnings by 62 percent. The extra time and accuracy save lives. In addition, three-to-four day weather forecasts are as accurate as the two-day forecasts of 15 years ago.

In 1993, NOAA identified 43,000 square nautical miles of waters that were in critical need of new hydrographic surveys around major ports and harbors, as well as previously unsurveyed areas of Alaska. With 98 percent of cargo by weight coming into U.S. ports, over half of it hazardous material, and ever larger vessels pushing the limits of dredged channels, the mariners' need for accurate, updated nautical charts was growing every day. While NOAA estimated it would take over 40 years to eliminate this critical survey backlog, today, that estimate is cut in half, thanks to increased resources, advances in technology, and successful partnerships with the private sector.

Recreational Resources

Enhanced Stewardship: This Administration took key steps to improve our investments in national parks, wildlife refuges, national forests, and other public lands, so that future generations will have the same opportunity to enjoy these national treasures that we have today. Discretionary funding to maintain and restore facilities on these lands has grown by

50 percent, from \$1.0 billion in 1993 to over \$1.5 billion in 2001. Federal land management agencies also now have temporary authority to collect expanded recreation and user fees, and reinvest the \$200 million in annual fee revenue in visitor facilities and services. Although this authority is not yet permanent, the experience over the past few years has shown that the public is willing to pay fees when they understand the funds will be used to support the parks, forests, and refuges they are visiting.

In addition to increased funding, the Administration initiated important management reforms to improve how these funds are spent. The Department of the Interior's National Park Service, Fish and Wildlife Service, and BLM have each begun extensive facility condition assessments to determine more accurately where maintenance has been deferred. Facility maintenance information systems are being implemented to identify and track specific maintenance and construction projects. Each bureau ranks its projects to prepare a five-year list of maintenance and construction priorities, so that available funds may be targeted at the most pressing needs. Other reforms include: the development of capital asset plans that identify up-front a project's cost, schedule, and performance goals; a restructuring of the National Park Service construction planning process at its Denver (Colorado) Service Center; and an increased reliance on standardized designs and private architectural firms. The Administration also led the successful effort to improve management of the National Wildlife Refuge System by establishing wildlife conservation as the dominant refuge goal and compatible wildlife-dependent recreation (including hunting, fishing, wildlife observation and photography, and environmental education and interpretation) as priority public uses.

Pollution Control and Abatement

The Federal Government helps achieve the Nation's pollution control goals by: (1) taking direct action; (2) funding actions by State, local, and Tribal governments; and, (3) implementing an environmental regulatory system. The Environmental Protection Agency's (EPA) \$7.8 billion in discretionary funds, a \$0.9 billion or 13-percent increase over 1993,

finances most activities in this area. EPA's discretionary funds have three major components—the agency's operating program, Superfund, and water infrastructure financing.

EPA's \$3.9 billion operating program provides the Federal funding to implement most Federal pollution control laws, including the Clean Air, Clean Water, Resource Conservation and Recovery, Safe Drinking Water, Toxic Substances Control, and the Food Quality Protection Acts. Spending for the operating program, which grew 40 percent during this Administration, represents the backbone of the Nation's efforts to protect public health and the environment.

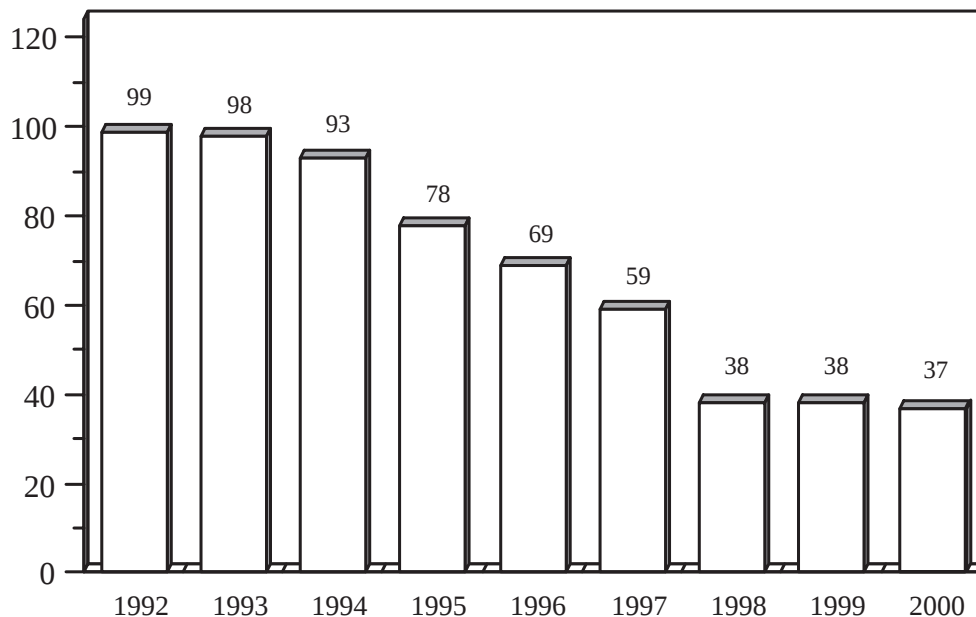
Reduction of Air Pollution: Under the Clean Air Act, EPA works to make the air clean and healthy to breathe by setting standards for ambient air quality, toxic air pollutant emissions, new pollution sources, and mobile sources. During the last eight years, the Administration took major steps to improve the

quality of the air we breathe, and helped reduce the number of metropolitan areas not in compliance with the current Federal ozone standard from 98 metropolitan areas in 1993 to 37 such areas today (see Chart 6-1). EPA also promulgated new more health-protective air quality standards for ozone and fine particulate matter that have yet to take effect.

Late in 1999, EPA established new rules for the sulfur content of gasoline and for tailpipe emissions from new cars and light duty trucks that will result in vehicles that are 77 to 95 percent cleaner than those of today. These measures, to be phased in from 2004 to 2009, may prevent thousands of premature deaths, tens of thousands of cases of respiratory illness, and hundreds of thousands of lost work days. Late in 2000, EPA finalized similar rules for sulfur content in diesel fuel and for heavy duty truck engine emissions that will also have a major impact in protecting public health. In past years, EPA has also issued rules

Chart 6-1. Air Quality Trends

Number of nonattainment areas for one-hour ozone National Ambient Air Quality Standards (NAAQS)



to reduce toxic air pollution from chemical plants by 90 percent, and put in place a program to clear the haze and restore pristine skies to our national parks.

Water Quality Improvement: Under the Clean Water Act, EPA works to conserve and enhance the ecological health of the Nation's waters, through regulation of point source discharges and through multi-agency initiatives such as the President's Clean Water Action Plan (CWAP). The CWAP focuses on three remaining challenges for restoring and protecting the 40 percent of the Nation's waterways not attaining water quality standards—preventing polluted runoff, protecting public health, and ensuring community-based watershed management. EPA funding for its programs included in the CWAP is \$712 million in 2001, an increase of 67 percent since 1993. A key component of this total is the \$238 million for EPA's non-point source grant program to States and Tribes, which has grown more than 375 percent since 1993. Non-point source pollution is the most significant remaining contribution to water pollution.

Provision of Safe Drinking Water: Today, America's drinking water is significantly safer than eight years ago. Administration efforts to strengthen drinking water safety, including amending the Safe Drinking Water Act in partnership with the Congress, mean that 89 percent of Americans (as of 1999) get tap water from drinking water systems that meet the tough Federal standards in effect as of 1994, an increase of six percentage points since 1994. The Administration also issued regulations requiring water systems to improve filtration and monitoring to protect against contamination by harmful microbes, and issued annual reports to their customers on the safety of their drinking water; and it proposed tough new standards for high risk contaminants, such as arsenic and radon.

Reform of Food Quality Protection: In 1996, following through on his 1993 proposal, President Clinton signed legislation to revolutionize the way our food supply is protected from harmful pesticides. The law overhauls the system that kept harmful pesticides on the market too long and safer alternatives off the market, and includes provisions to better protect children from pesticide risks. So far, EPA

has reassessed 3,551 of the 9,721 existing pesticide tolerances (i.e. allowable residue on food) to ensure that they meet the statutory standard of "reasonable certainty of no harm", and has worked with pesticide manufacturers to phase out uses of some of the most high risk pesticides, including methyl parathion, azinphos-methyl, chlorpyrifos, and diazinon.

Citizen Empowerment: Requiring industries to share information about chemicals released into the air and water helps empower citizens to understand the environment around their homes, schools, and work places and address problems as necessary, creating a powerful incentive for industry to pollute less. In the decade since the public's right to know about chemical releases became law, industry's toxic pollution has fallen nearly 50 percent. The Administration expanded the public's right to know by doubling the number of chemicals subject to reporting requirements and by increasing by 30 percent the number of facilities that must report. In addition, President Clinton required the Federal Government to begin reporting its chemical releases in 1994, and such releases have been reduced by 60 percent.

The Administration, in 1998, also established the Chemical Right to Know Initiative, which includes a highly successful, innovative, voluntary partnership with industry to develop and provide the public with basic health data on chemicals released into the environment in high volume. In addition, EPA greatly expanded the amount of environmental data available to the public through an initiative to provide the Nation's 86 largest metropolitan areas with real-time environmental information.

Proper Management of Wastes: Under the Resource Conservation and Recovery Act, EPA and authorized States prevent dangerous releases to the environment of hazardous, industrial nonhazardous, and municipal solid wastes by requiring proper facility management and cleanup of environmental contamination at those sites. As of the end of 2000, 62 percent of the Nation's 2,900 hazardous waste management facilities have approved controls in place to prevent dangerous releases to air, soil, and groundwater.

EPA's underground storage tank (UST) program seeks to prevent, detect, and correct leaks from USTs containing petroleum and hazardous substances. Regulations issued in 1988 required that substandard USTs (lacking spill, overfill, and/or corrosion protection) be upgraded, replaced or closed by December 22, 1998. By the end of 2000, 86 percent (an estimated 614,000) of active USTs will be in compliance with these requirements, which improves upon the 65 percent (approximately 554,000) of then-active USTs in compliance as of the December 22, 1998, deadline. Over the past decade, more than 1.4 million substandard USTs have been permanently closed.

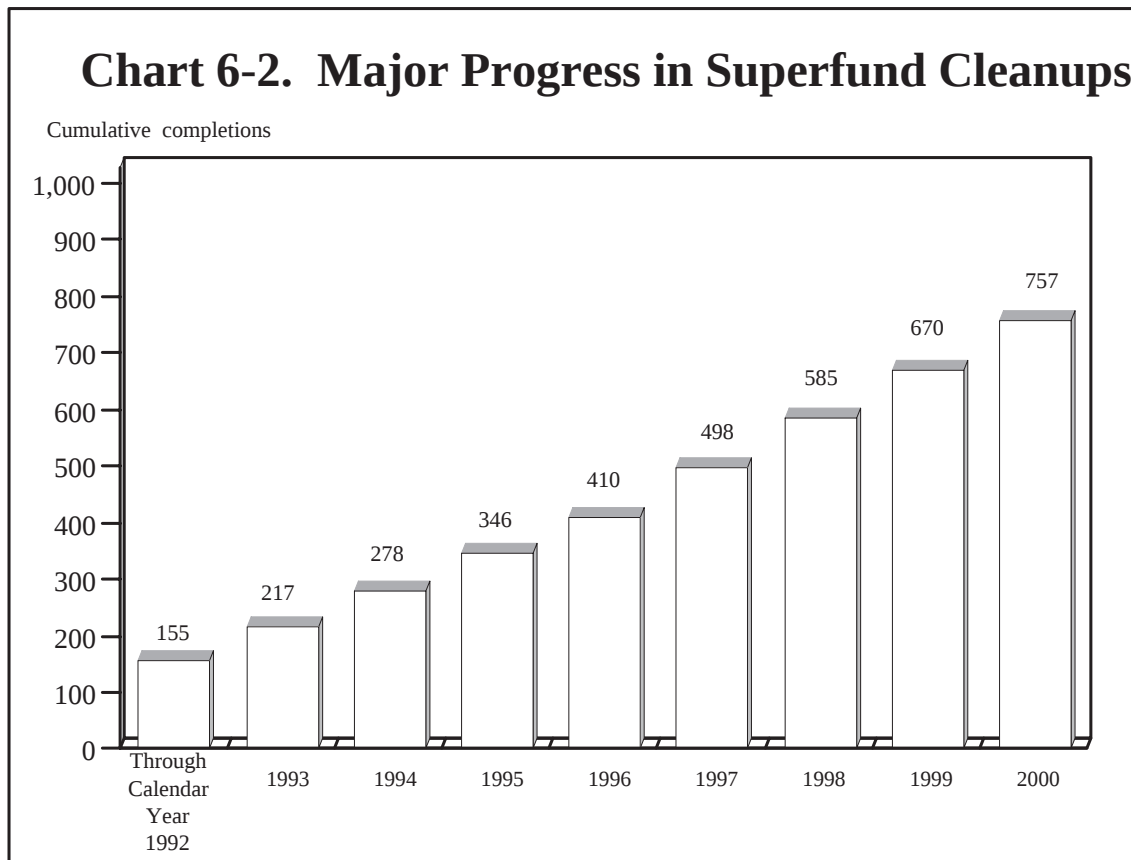
Climate Change: In October 1997, President Clinton announced immediate actions to begin addressing the problem of global climate change, and included the Climate Change Technology Initiative (CCTI) in the 1999 Budget. In 2001, EPA will devote \$123 million to CCTI, \$115 million more than related programs in 1993, focused on the deployment of under-utilized but existing technologies that reduce greenhouse gas emissions. By the end of 2000, greenhouse gas emissions are expected to have been reduced from projected levels by approximately 58 million metric tons of carbon equivalent per year through EPA partnerships with businesses, schools, State and local governments, and other organizations.

Accelerated Clean-up of Toxic Waste Sites: During this Administration, EPA's Superfund program to clean up abandoned hazardous waste sites became faster, fairer, and less expensive. At the end of 2000, a total of 757 Superfund sites had been cleaned up—602 of these cleanups completed since 1993, while only 155 of the sites were cleaned up during the previous 12 years (see Chart 6-2). EPA projects that two-thirds, or 900, of the Nation's worst toxic waste dumps will be cleaned up by the end of 2002. EPA's Superfund administrative reforms have been responsible for saving more than \$1.4 billion in future costs by updating cleanup remedy decisions (to determine whether the same level of protection could be provided at lower cost) at more than 300 sites. The Agency also streamlined the liability allocation process to reach settlement with more than 21,000 small volume waste parties at Superfund sites.

Spearheaded by this Administration since 1993, EPA's brownfields program to clean up and redevelop lightly contaminated commercial and industrial sites has funded over 2,000 site assessments; generated 7,300 jobs, and leveraged \$2.8 billion in cleanup and redevelopment funds. The brownfields tax incentive, enacted as part of the 1997 Taxpayer Relief Act and extended by the 1999 Tax Relief Extension Act, has leveraged additional private investment by allowing businesses to deduct certain cleanup costs on environmentally contaminated lands.

Support for Needed Infrastructure: In 1996, President Clinton signed into law his proposal for establishing a new Drinking Water State Revolving Fund (DWSRF), which would complement the existing Clean Water State Revolving Fund (CWSRF). EPA appropriations provide capitalization grants to State revolving funds, which make low-interest loans to municipalities to help pay for wastewater and drinking water treatment systems required by Federal law. DWSRF funding of \$825 million and CWSRF funding of \$1,350 million in 2001 kept the programs on track to achieve the Administration's goal of capitalizing these funds to the point where they provide a total of \$2.5 billion in average annual assistance for the long term, even after Federal assistance ends. Funding provided during this Administration resulted in the CWSRF being capitalized at more than twice the authorized level for the program. Currently, 99 percent of the population served by community sewerage systems are served by facilities upgraded to meet secondary treatment or better, as required by the Clean Water Act.

Financial Assistance to Rural Communities: USDA provides financial assistance for safe drinking water and adequate wastewater treatment facilities to rural communities (under 10,000 people). USDA offers this grant and loan assistance at subsidized interest rates based on the community's income. Part of those funds go toward USDA's Water 2000 initiative to bring indoor plumbing and safe drinking water to under-served rural communities. Since 1994, USDA has invested almost \$2.5 billion in loans and grants on high-priority Water 2000 projects nationwide.



Over the last eight years, the Administration successfully targeted USDA water and waste water treatment facility funds to underserved rural communities, leveraged resources from other public and private sources, and maintained the strong loan repayment record of the Water and Waste Disposal program. During this Administration, USDA financed 2,600 water and wastewater treatment facilities serving over 15 million rural residents. Of these, over 1,950 were Water 2000 projects.

Other Water Resources

The Federal Government builds and manages water projects for navigation, flood damage reduction, environmental purposes, irrigation and hydropower generation. The Army Corps of Engineers (DOD) operates nationwide, while the Department of the Interior's Bureau of Reclamation operates in the 17 Western States.

Army Corps of Engineers: This Administration's major accomplishments for the Army Corps of Engineers include:

- Increased funding of the Corps' environmental activities by over \$400 million (100 percent) from 1993 to 2001, including significant funding increases for restoring endangered salmon on the Columbia and Snake Rivers (in Washington, Oregon, and Idaho) and to restore the Florida Everglades. The Administration also successfully fought off legislative riders proposed by the Congress that would have diminished the Corps' ability to comply with environmental laws, and secured authorization of its "Challenge 21" program for projects that combine flood damage reduction with environmental restoration of the river corridor.
- Secured funding to increase the competitiveness of the Nation's ports, including major efforts to deepen the ports of New

York/New Jersey; Los Angeles, California, and Baltimore, Maryland. The Administration's proposal to create a new Harbor Services Fund, which the Congress did not adopt, would have helped ensure a safe and economically competitive port system.

- Initiated construction of priority new projects needed for public health and safety, such as projects to provide increased flood protection to Grand Forks, North Dakota, following devastating floods in 1997, and to Sacramento, California.
- Improved the wetlands permit program significantly, including important changes to "nationwide" permits that will help minimize adverse effects of development on the aquatic environment, especially in environmentally sensitive areas.

Reinvention of the Bureau of Reclamation: Between 1993 and 2001, the Administration dramatically changed the primary focus of the Bureau of Reclamation from water resource "development" to water resource "management". Instead of focusing on engineering projects to harness the West's rivers and reclaim its arid lands, Reclamation now concentrates on managing existing water efficiently and on resolving water resource conflicts through cooperation among stakeholders. A major restructuring reduced Reclamation's workforce by about 2,000 employees (25 percent below 1993), and eliminated nearly 6,500 pages of regulatory provisions. At the same time, Reclamation continued to supply water and power efficiently throughout the West, generating more than 40 billion kilowatt hours of energy each year, delivering 10 trillion gal-

lons of municipal, rural and industrial water to over 31 million people, and providing water to one out of every five Western farmers.

Resolution of Western U.S. Water Conflicts: This Administration worked to foster regional cooperation to resolve conflicts in several Western river basins. In the Lower Colorado River Basin, it took critical steps to allow Arizona, California, and Nevada to better utilize the limited amount of water available from the Colorado River. The Interior Department, working through the Bureau of Reclamation, completed the major water supply features of the Central Arizona Project and reached a conditional settlement of related repayment issues. Interior created a Federal/State program to help conserve over 100 threatened and endangered species from Lake Mead to the Mexican border. It also reached agreement with California on a framework plan to ensure that California moves towards living within its allocation of Colorado River water. In the Missouri River Basin, the Department of the Interior worked with the governors of Colorado, Nebraska, and Wyoming to develop the Platte River Cooperative Agreement, protecting species in the Middle Platte River while providing regulatory certainty to water and power interests. Additionally, Interior moved to resolve longstanding conflicts on water rights between Native American Tribes and U.S. entities. It advanced or finalized major Tribal water rights settlements for the Gila River Indian Community, the San Carlos Apache Tribe, and the Tohono O'odham Nation in Arizona; the Shivwits Paiute Band in Utah; the Ute Tribes in Colorado; and, the Chippewa Cree Tribe in Montana.

7. AGRICULTURE

Table 7-1. Federal Resources in Support of Agriculture

(Dollar amounts in millions)

Function 350	1993 Actual	2001 Estimate	Percent Change: 1993–2001
Spending:			
Discretionary budget authority	4,297	4,792	12%
Mandatory outlays	16,109	20,356	26%
Credit Activity:			
Direct loan disbursements	11,132	10,879	–2%
Guaranteed loans	4,564	6,492	42%
Tax expenditures	290	1,080	NA

NA=Not applicable.

The U.S. Department of Agriculture (USDA) seeks to enhance the quality of life for the American people by supporting agricultural production; ensuring a safe, affordable, nutritious, and accessible food supply; conserving agricultural, forest, and range lands; supporting sound development of rural communities; providing economic opportunities for farm and rural residents; expanding global markets for agricultural and forest products and services; and working to reduce hunger in America and throughout the world. (Some of these missions fall within other budget functions and are described in other chapters in this Section.)

Farming and ranching are risky. Farmers and ranchers face not only the normal vagaries of supply and demand, but also uncontrollable risk from nature. Federal programs are designed to accomplish two key economic goals: (1) enhance the economic safety net for farmers and ranchers; and, (2) open, expand, and maintain global market opportunities for agricultural producers.

Over the past eight years, as farm income rose to a record level and then receded, the Federal Government has helped to make U.S. farmers more productive, ensure that markets function fairly, and provide a safety net for farmers and ranchers. Among its

other missions, USDA disseminates economic and agronomic information, ensures the integrity of crops, inspects the safety of meat and poultry, and helps farmers finance their operations and manage risks from both weather and variable export conditions. The results are found in the public welfare that Americans enjoy from an abundant, safe, and inexpensive food supply, free of severe commodity market dislocations. Agriculture, food, and its related activities account for 15 percent of the total U.S. personal consumption expenditure.

Conditions on the Farm

The farm economy has swung widely in the past eight years. By 1993, the farm sector had recovered from the economic farm crisis of the 1980s. Net cash income reached a record \$59.1 billion. Production losses that year, because of widespread flooding in the Midwest, were ameliorated by a surge of Federal Government payments. Farm equity increased and debt ratios fell. Although commodity prices soared to record highs in 1995 through 1997, farm cash income in 1993 remains the record level. Following the historic tight supplies of major commodities in the mid-1990s, repeated years of over-production caused prices to decline beginning in 1998. Gradually prices and market income are

recovering, aided by activities and funding by the Federal Government.

Economic conditions facing U.S. agriculture in 2000 continued to challenge the Federal role. While supplies of farm commodities continued to exceed demand, prices have started to recover from the lows of the past two years. Gross cash receipts rose slightly (three percent above the previous year) to \$195 billion, well above the average level for 1990–1995. Net cash income also rose slightly, remaining above average, due once again to Federal emergency payments. Farmers are expected to earn slightly more from 2001 crop sales due to a larger crop and improving prices. Livestock prices in 2000 recovered from previous lows, and livestock receipts exceeded the record level of \$96.5 billion in 1997. Crop and livestock prices are expected to strengthen modestly in 2001.

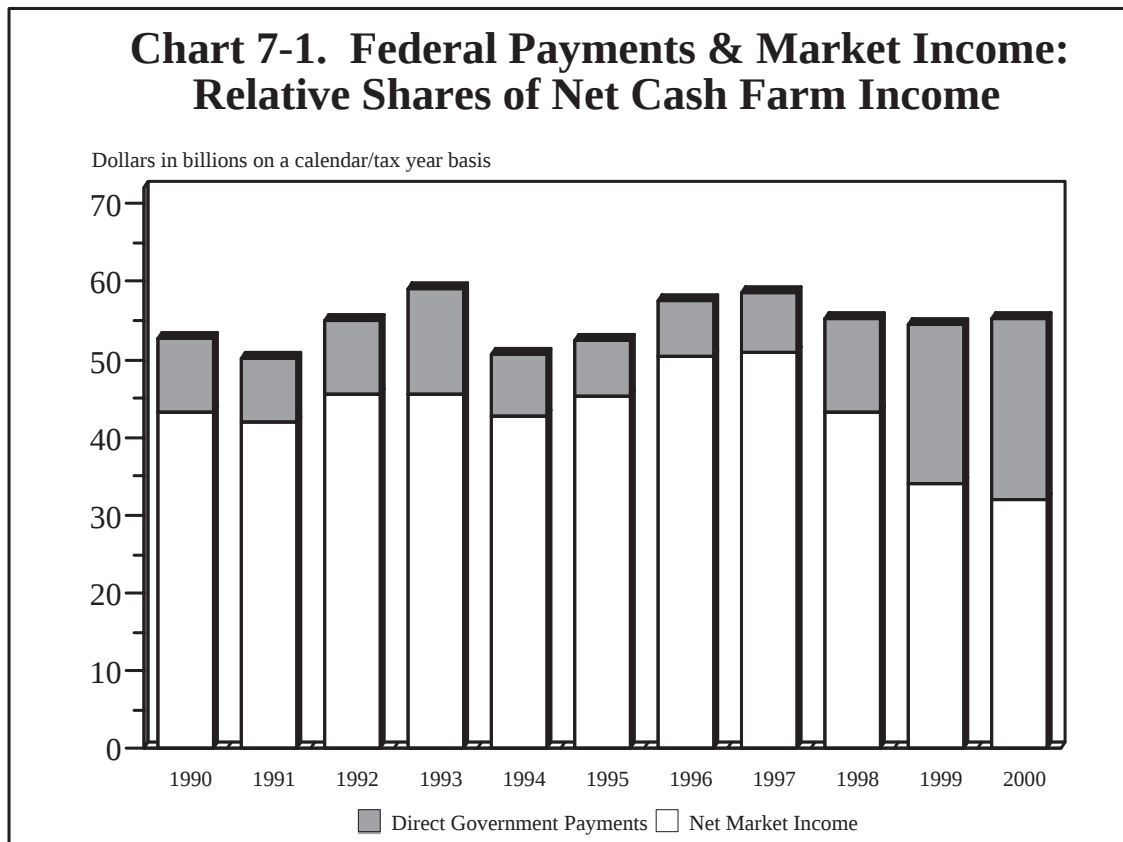
Economic conditions in 2000 prompted the Federal Government to expand spending on agriculture for a third year, including a total of \$9.1 billion in emergency disaster relief enacted in both the 2001 Agriculture Appropriations Act and the Agriculture Risk Protection Act of 2000. Overall, Federal payments to farmers from USDA's Commodity Credit Corporation (CCC, the major farm-assistance program) reached a record \$28 billion in 2000 (from \$10 billion in 1998 and \$12 billion in 1993). Table 7–2 provides detail on these payments by fiscal year, while Chart 7–1 displays on a calendar/tax year basis the share of net farm income that was provided through USDA payments.

Despite generally low commodity prices, farm assets and equity continue to rise. Farm sector assets increased in value in 2000, to \$1.1 trillion. Farm asset values are forecast to remain at historically high levels in 2001, as farm real estate values increase for the twelfth straight year. Farm business debt declined slightly in 2000, from its highest level since 1986; and the debt-to-equity and debt-to-asset ratios also improved slightly in 2000, and are much stronger than on the eve of the financial stress in the farm sector during the 1980s. Farmer loan delinquencies are at a low and flat level. However, continuing low commodity prices may cause increasing financial stress for certain producers, although farm income overall and in most regions is expected to improve in 2001.

Exports hold the key to future U.S. farm income. The Nation exports 30 percent of its farm production, and agriculture produces the greatest balance of payments surplus, for its share of national income, of any economic sector. Agricultural exports reached a record \$60 billion in 1996. Lower world market prices and bulk export volume reduced exports to \$49 billion in 1999, although export volume was steady in that period, but in 2000 exports increased to \$51 billion. In 2001, export growth is likely to continue to improve gradually to \$53 billion, with the agricultural trade net surplus expected to reach \$13 billion.

Table 7–2. USDA/Commodity Credit Corporation Payments to Farmers
(Outlays, in millions of dollars)

	Actual		Estimate	
	1993	1999	2000	2001
Income Assistance	8,607	5,476	5,049	4,056
Loan Deficiency Payments	352	3,360	6,387	5,259
Conservation Reserve Program and other Conservation Programs ...	1,579	1,754	1,770	2,058
Emergency Assistance	1,254	5,853	14,504	3,698
Total	11,792	16,443	27,710	15,071



The 1996 Farm Bill

President Clinton emphasized, when he signed the Federal Agriculture Improvement and Reform Act of 1996 (the 1996 Farm Bill), that its income safety net was not sufficient. Events in the agricultural economy, and the Federal response, since then have borne out his concern. When commodity prices dropped in 1998, statutory Federal assistance was insufficient, prompting a series of emergency funding legislation that has nearly doubled the 1996 Farm Bill's income assistance during 1998–2000. In response, the Administration proposed legislation to amend the Farm Bill to provide counter-cyclical farm income assistance that would target payments to farmers in need when market income falls below the five-year average level. Congress did not adopt the legislation, but the proposal provides important recommendations for the next Farm Bill, which will be legislated within the next two years.

In the absence of legislative reform, the Clinton-Gore Administration moved forward under existing authorities to bolster commodity prices and support for family farmers. These administrative actions included purchasing surplus commodities to expand humanitarian donations at home and abroad; freezing the commodity price-support loan rates instead of allowing them to fall; and, expanding alternative uses of commodities through programs such as the bioenergy initiative in which bonuses are paid to bioenergy producers who increase their purchases of commodities. These actions increased farm income by over \$500 million for the 2000 crop year.

The 1996 Farm Bill, effective through 2002, redesigned Federal income support and supply management programs for producers of wheat, corn, grain sorghum, barley, oats, rice, and cotton. Under previous laws dating to the 1930s, farmers who reduced plantings could get income support payments when prices

were low, but farmers had to plant specific crops in order to receive such payments. Even when market signals encouraged the planting of a different crop, farmers had limited flexibility to do so. By contrast, the 1996 Farm Bill eliminated most such restrictions and, instead, provided fixed, but declining payments to eligible farmers through 2002, regardless of market prices or production volume. This law thus “decoupled” Federal income support from planting decisions and market prices. The law has brought changes in the crop acreage planted in response to market signals. In 1997, wheat acreage fell by six percent, or about five million acres, from the previous year, while soybean acreage rose by 10 percent, or over six million acres.

The 1996 Farm Bill’s elimination of planting restrictions on farmers meant greater potential volatility in crop prices and farm income. Not only can USDA no longer require farmers to grow less when supplies are great, but the size of farm income-support payments no longer varies as crop prices fluctuate. The 1996 Farm Bill also provides “marketing loan” payments to farmers when commodity prices fall below a statutorily set “loan rate”. These payments reached the historic-high level of nearly \$7 billion in calendar year 2000. Payments to farmers were further supplemented by emergency aid: \$6 billion was appropriated in 1999 for 1998 crop-year losses, and \$15 billion was legislated in 2000 to address both 1999 and 2000 crop-year losses.

Market conditions in 1998–2000 raised the issue of whether the Federal farm income safety net was sufficient, and how it should be improved. Some crop prices significantly decreased from previous years, but the Farm Bill’s decoupled income assistance did not sufficiently adjust upward to compensate. The recent crop experience also highlighted problems with the crop insurance program, which is intended to be the foundation of the farm safety net. Farmers did not have sufficient coverage when they experienced multi-year losses; there was no coverage available for many commodities including livestock; and, most fundamentally, coverage that provides adequate compensation was simply not affordable for many farmers.

Crop Insurance

USDA helps farmers manage their risks by providing subsidized crop insurance, delivered through the private sector, which shares the insurance risk with the Federal Government. Farmers pay no premiums for coverage against catastrophic production losses, and the Government subsidizes their premiums for higher levels of coverage. Over the past three years, an average 65 percent of eligible acres have been insured, the highest in the program’s 60-year history. USDA now targets an average indemnity payout of \$1.08 for every \$1 in premium, down from the historical average indemnity of \$1.40 for every \$1 in premium. Crop insurance cost the Federal Government an average of \$1.2 billion a year over the last eight years, including USDA payments to private companies for delivery of Federal crop insurance.

In 1998, the Secretary of Agriculture used the authority and funds provided in an emergency farm assistance package to increase crop insurance premium subsidies, thereby providing incentives for more producers to enroll in the program and purchase higher coverage that might mitigate the need for future ad hoc crop-loss legislation. The Secretary’s plan was highly successful, as farmers responded with purchases of unprecedented insurance coverage levels. Congress has since followed the Administration’s lead and enacted further crop insurance discounts in subsequent years, culminating in codifying the reform through the Agriculture Risk Protection Act, enacted in June 2000. With the new legislation, the Administration will have taken the crop insurance program from a narrow, ineffective program in 1993 to a comprehensive program that is the centerpiece of a more market-oriented farm safety net. Over the same period, major enhancements and innovative risk management products have been brought to market, including the first Government program to subsidize the use of options contracts for the purpose of managing price risk on milk. The recent reforms will increase average premium subsidies to over 50 percent, and also pave the way for the program’s first livestock policy.

Trade

The trade surplus for U.S. agriculture declined more than 50 percent from its peak of \$27.4 billion in 1996 to \$11.9 billion in 1999, after experiencing faster growth in recent decades than any other sector of the economy. The trade surplus level in 1993 was \$18.6 billion, and averaged \$17.9 billion per year from 1994–1999. The reduction was largely the result of decreased commodity prices, and significantly greater U.S. imports drawn by the strong dollar, rather than a loss of agricultural export volume. USDA's international programs helped to shape the growth in agricultural exports, and maintain the volume of foreign demand. Its Foreign Agriculture Service's efforts to negotiate, implement, and enforce trade agreements play a large role in creating a strong market for exports.

USDA is authorized to spend over \$1 billion in 2001 on agricultural export activities, including subsidies to U.S. firms facing unfairly subsidized overseas competitors, and loan guarantees to foreign buyers of U.S. farm products. USDA also helps firms overcome technical requirements, trade laws, and customs and processes that often discourage the smaller, less experienced firms from taking advantage of export opportunities. USDA outreach and exporter-assistance activities help U.S. companies address these problems and enter export markets for the first time.

USDA programs also help U.S. firms, especially smaller-sized ones, export more aggressively, and high-value products now account for more than half of agricultural export value. By participating in USDA's Market Assistance Program (MAP) or USDA-organized trade shows, firms can more easily export different products to new locations on their own. Small and medium-sized firm recipients (those with annual sales of under \$1 million) now represent nearly all of the MAP branded-promotion spending, up from 70 percent in 1996.

Most significantly in recent years, the Administration has greatly increased overseas donations of U.S. commodities, using current authorities to dispose of crop surpluses. Since 1998, U.S. food aid has tripled to nearly 10 million metric tons annually, at a total

cost of about \$5 billion. The donation of U.S. commodity surpluses has capitalized on the opportunity to boost U.S. exports of surplus crops while feeding hungry people abroad. In 2001, USDA is also implementing a pilot program, the Global Food for Education Initiative, to donate \$300 million in commodities and associated transportation and distribution costs to create a school lunch program in lower-income foreign countries. Through this initiative, the Administration is expanding the overseas donation program to strengthen the link between good nutrition and education that has been demonstrated in the United States.

Conservation

Although the Administration had serious concerns with the 1996 Farm Bill's commodity provisions, it strongly supported the bill's extensive conservation provisions, which were developed with bipartisan cooperation. These provisions made the 1996 Farm Bill the most conservation-oriented farm bill in history, enabling USDA to help farmers and ranchers protect the natural resource base of U.S. agriculture while augmenting farm income. USDA's Environmental Quality Incentives Program (EQIP) provides cost-share and incentive payments to farmers and ranchers that implement conservation practices such as integrated pest management or animal waste management systems. EQIP is also designed to help farmers comply with Federal, State, and local environmental regulations, and, by law, at least half of its funds must be used to address conservation concerns associated with livestock production. USDA's Conservation and Wetlands Reserve Programs are discussed in Chapter 6, "Natural Resources and Environment." Another new 1996 Farm Bill program was the Farmland Protection Program (FPP), which provides financial assistance to State, local, and Tribal governments to permanently protect farmland from development and preserve open spaces. The new Wildlife Habitat Incentives Program (WHIP) provides financial assistance to landowners that wish to improve aquatic or terrestrial habitat on their land. Eligible practices include stream restoration, tree planting, and prescribed burning.

Since the inception of these programs, USDA has:

- helped approximately 1,000 communities assess the status of their natural resource base and develop locally-led natural resource action plans through EQIP;
- worked with non-Federal partners to permanently protect approximately 150,000 acres of prime farmland from development through the FPP, maintaining communities' open spaces and helping sustain agriculture-related economies; and,
- entered into nearly 8,500 long-term WHIP contracts with landowners to improve wildlife habitat on over 1.3 million acres.

Agricultural Credit

USDA provides over \$700 million a year in direct loans and over \$2.6 billion a year in guaranteed loans to finance farm operating expenses and farmland purchases. A portion of direct loans, which carry interest rates at or below those on Treasury securities, is targeted to beginning or socially-disadvantaged farmers who cannot secure private credit.

The Administration acted to increase farm loan programs in response to the downturn in the farm economy. USDA's Farm Service Agency's direct and guaranteed farm loans, which totaled \$2.1 billion in 1993, will reach over \$3 billion in 2001—and close to \$5 billion including funds that will carry over from 2000 emergency appropriations. As the farm crisis became apparent in 1999, USDA understood farmers could not wait for the Congress to enact additional funding. The Administration's timely response channeled funds to farm loan programs through administrative transfer authorities. Moreover, USDA monitoring of loan program activity allowed for strategic reprogramming of funds across loan programs to meet producers' greatest financing needs. In addition, the Secretary of Agriculture made it a priority to increase the amount of USDA lending to beginning and socially-disadvantaged farmers to 18 percent, while simultaneously reducing delinquencies through the underwriting skills of staff and the hands-on loan servicing provided all borrowers. Consistent with the goals of

the Vice President's Reinventing Government initiative, this improvement has come at a time of staff reductions, partially as a result of the Administration's efforts to streamline loan underwriting procedures.

The Farm Credit System and Farmer Mac—both Government-Sponsored Enterprises—enhance the supply of farm credit through ties to national and global credit markets. The Farm Credit System (which lends directly to farmers) recovered strongly from its financial problems of the 1980s, in part through Federal help. Farmer Mac increases the liquidity of commercial banks and the Farm Credit System by purchasing agricultural loans for resale as bundled securities. In 1996, the Congress gave the institution authority to pool loans as well as more years to attain required capital standards, which Farmer Mac achieved.

Agricultural Research, Education and Extension Programs

The Federal Government underwrites agricultural research, education, economics and statistics programs whose goals are to make U.S. agriculture more productive and competitive in the global economy. These programs, currently funded at approximately \$2.3 billion (\$1.8 billion in 1993), provide for in-house research by USDA scientists at over 100 Federal facilities; grants for research, education and extension work at eligible institutions, such as land grant colleges and universities; and, economic and statistical support for USDA programs and the agricultural sector.

Through its in-house research program, USDA continued to support increases for high-priority initiatives of national importance in human nutrition, food safety, the environment, invasive species, genetics and genomics, and biobased products. In addition, USDA continued to emphasize the importance of competitive peer-reviewed grants for both research and education and extension grants programs, and saw funding specifically for these grants more than double during the last eight years, in large part due to new authorities in the 1998 Agricultural Research, Extension, and Education Reform Act, which includes \$120 million in annual mandatory

agricultural research funding. In addition, USDA's Cooperative State Research, Education and Extension Service increased its support to minority institutions of higher education by 47 percent since 1993, as well as to areas such as integrated pest management and alternative control technologies (an increase of 53 percent), sustainable agriculture (an increase of 94 percent), and also initiated programs for food safety.

USDA economics and statistics programs improve U.S. agricultural competitiveness by reporting and analyzing information. The Economic Research Service provides economic and other social sciences information and analysis of agriculture, food, natural resources and rural development policy issues. The National Agricultural Statistics Service provides estimates of commodity production, supply, price and other aspects of the farm economy, to help ensure efficient markets through informed participants.

Marketing and Inspection Programs

USDA's Animal and Plant Health Inspection Service is responsible for protecting America's productive land from foreign and domestic plant and animal infestations. As the international movement of people and goods increases, the threat of infestations becomes even more serious, as shown in recent years by the outbreaks of citrus canker, plum pox, Pierce's Disease, Medfly, and the Asian Longhorned Beetle. The Administration responded to these and other outbreaks by seeking appropriations and using existing emergency authority to provide funding for invasive species detection and eradication, as well as compensation for lost income where appropriate. During 1999 and 2000, the Administration provided an annual average of \$180 million to combat infestations and compensate losses from them—eight times the annual amount made available during the previous six years of the Administration, and 11 times the annual amount provided during 1989 through 1992. In addition, in July 2000, USDA and OMB submitted proposed guidelines to the Congress on the Federal role in responding to pest and disease infestations.

The Administration also increased funding to improve border checks at airports, seaports, and land border crossings, to intercept dangerous goods. In 2001, almost \$240 million will be available for this purpose. In addition, in order to comply with World Trade Organization requirements that trade decisions be based upon scientific, risk-based criteria, the Administration implemented a policy that requires countries seeking to import goods to the United States from regions where there may be a disease threat to American agriculture, to undergo a rigorous risk analysis and be subject to risk mitigation requirements to reduce the risk to a "negligible level." These regulatory actions are open to public scrutiny and comment.

Another growing concern to which the Administration responded is the increasing concentration in the livestock marketing industry, both horizontally across the entire industry, and vertically through agreements between packers and sellers that can limit competition. The Administration took action to create a more open market place, by providing additional funds to investigate anti-competitive actions in the industry, as well as to implement mandatory livestock reporting requirements that provide up-to-date information on contractual arrangements to better ensure a level playing field, particularly for smaller livestock producers.

In December 2000, the Administration issued final regulations providing the first national standards for the production, handling, and processing of organically-grown crops and livestock. These standards provide consumers with confidence in the integrity of products advertised as organic, and provide farmers with clear guidelines on how to gain organic certification for their commodities in order to take advantage of the rapidly increasing consumer demand for organic products.

USDA was also a leader in the Administration's initiative to improve food safety, particularly the safety of meat and poultry products. This initiative is discussed in Chapter 12, "Health."

Improved Customer Service

USDA has three agencies with a nationwide system of field offices, the Farm Service Agency, the Natural Resources Conservation Service, and Rural Development. These county offices deliver a diverse menu of programs including commodity price support, emergency disaster, and conservation programs, as well as farm real estate, operating and rural housing loan programs. The field operations' structure and operating procedures of these agencies had been essentially unchanged in decades. Their dispersed field office locations, with their high and increasing costs of maintaining the current delivery system including separate information technology systems, prompted significant reform. In 1993, the Vice President's National Performance Review called for creating "one-stop shopping" service centers from USDA county offices, to significantly improve customer service and achieve operating efficiencies. The streamlining devised by USDA included three key components: co-location of county offices, integration of their information systems, and modernization of their business processes in keeping with the new tools provided by enhanced information technology. Throughout the 1990s, with the support of both the Administration and the Congress, the field offices were largely co-located and work began on integrating business processes and information systems. Consolidating and relocating the field offices reduced their number over the last eight years from over 7,500 offices in 3,700 locations to approximately 5,500 offices in 2,500 service centers.

The USDA systems integration initiative, known as the Common Computing Environment (CCE), is scheduled to be complete in 2002. The CCE was planned as a common architecture and shared information system to replace outdated "stove-pipe" (single agency) systems currently supported by USDA agencies. The CCE's goal is to enable new technology and methods to be easily shared and implemented by all USDA agencies, to reduce the burden of data collection on its customers as well as the costs to the Government. The business process reengineering component of this initiative is still under way and, while dependent on the CCE for completion, will bring USDA agencies into compliance

with the Freedom to E-file Act of 2000. These new procedures and information systems will allow electronic filing that will reduce the paperwork burden on those who participate in multiple USDA programs and reduce the county-office workload. Many of the forms used by USDA customers are now available on line, though e-filing is not available in most instances. E-filing capability is targeted for completion in the next two years.

While true one-stop shopping and significantly improved customer service will not be available until these reforms are complete and USDA processes and administrative functions are harmonized, USDA made great strides over the last eight years to modernize its county-office program delivery.

Civil Rights

Since 1993, USDA's leadership made improvement of the Department's civil rights record one of its top priorities. The Agriculture Secretary re-established a USDA Office of Civil Rights, which was closed in the 1980s, to provide a focal point for USDA's civil rights functions and oversight. The Office is responsible for policy development, analysis, coordination, and compliance activities. Comprehensive training in civil rights has been provided to USDA employees, and the accountability of managers has been clarified and increased. Even with downsizing, representation of minorities and women in USDA's work force improved. In addition, the Farm Service Agency increased its lending to African-American farmers by 67 percent over the last five years. USDA also worked to improve its civil rights complaint processing to reduce the time it takes to resolve cases. In the late 1990s, African American farmers filed a class-action discrimination law suit against USDA, primarily based on charges of past discriminatory treatment by USDA loan officers in the county offices. The suit exposed widespread discriminatory practices, and USDA settled the suit in 1999. That settlement, known as the Pigford Consent Decree, provides payments of \$50,000 from the Department of the Treasury's Claims, Judgements, and Relief Acts Fund that is administered by the Department of Justice, and forgiveness of USDA debt to thousands

of African American farmers. As of mid-December 2000, over 9,500 claims have been paid, totaling about \$480 million.

Tax Expenditures

Tax expenditures for agriculture are estimated to be just over \$1 billion in 2001. Expenditures due to the treatment of certain agricultural income as capital gains rather than ordinary income increased by over \$650

million, or over 500 percent, since 1993. In addition, legislation in 1999 made permanent the ability for farmers and ranchers to lower their tax liability by averaging their taxable income over the prior three-year period. Producers of certain crops, such as corn, also receive indirect benefits from the ethanol tax credit, due to the higher commodity prices that result from the increased demand for their commodities.

8. COMMERCE AND HOUSING CREDIT

Table 8-1. Federal Resources in Support of Commerce and Housing Credit

(Dollar amounts in millions)

Function 370	1993 Actual	2001 Estimate	Percent Change: 1993-2001
Spending:			
Discretionary budget authority	4,092	2,932	-28%
Mandatory outlays ¹	-25,562	2,964	NA
Credit Activity:			
Direct loan disbursements	5,012	1,670	-67%
Guaranteed loans	79,378	229,578	189%
Tax expenditures	160,040	254,680	59%

NA=Not applicable.

¹ Mandatory outlays in 1993 were offset by nearly \$28 billion in deposit insurance collections primarily from the sale of assets and insurance premiums.

During the Clinton-Gore Administration, the homeownership rate reached a record high level, increasing investment in the Nation's communities and enabling an additional nine million American families to build personal equity in a home. Facilitating homeownership is one of many ways the Government supports housing and advances commerce. The Government provides direct loans and loan guarantees to ease access to mortgage and commercial credit; sponsors private enterprises that support the secondary market for home mortgages; regulates private credit intermediaries; protects investors when insured depository institutions fail; promotes exports and technology; collects our Nation's statistics; and, offers tax incentives.

Restoring the Public's Trust in the Department of Housing and Urban Development (HUD)

The Administration improved HUD operations through a concerted and persistent management overhaul over the past several years, aiming toward a more unified and responsive organization. Today, HUD employees have a clearer mission, one that emphasizes customer service and the achievement of results. HUD's information and financial

systems are better. The Department now has the additional tools to assess how its intermediaries are performing, set performance goals, and reward and penalize on the basis of performance. The end product is a better business organization to deliver necessary services to the Nation. As the General Accounting Office reported, "HUD continues to make credible progress in overhauling its operations to correct its management deficiencies," and it credited the HUD Management Reform Plan as "a major contributor to this progress."

Providing Mortgage Credit

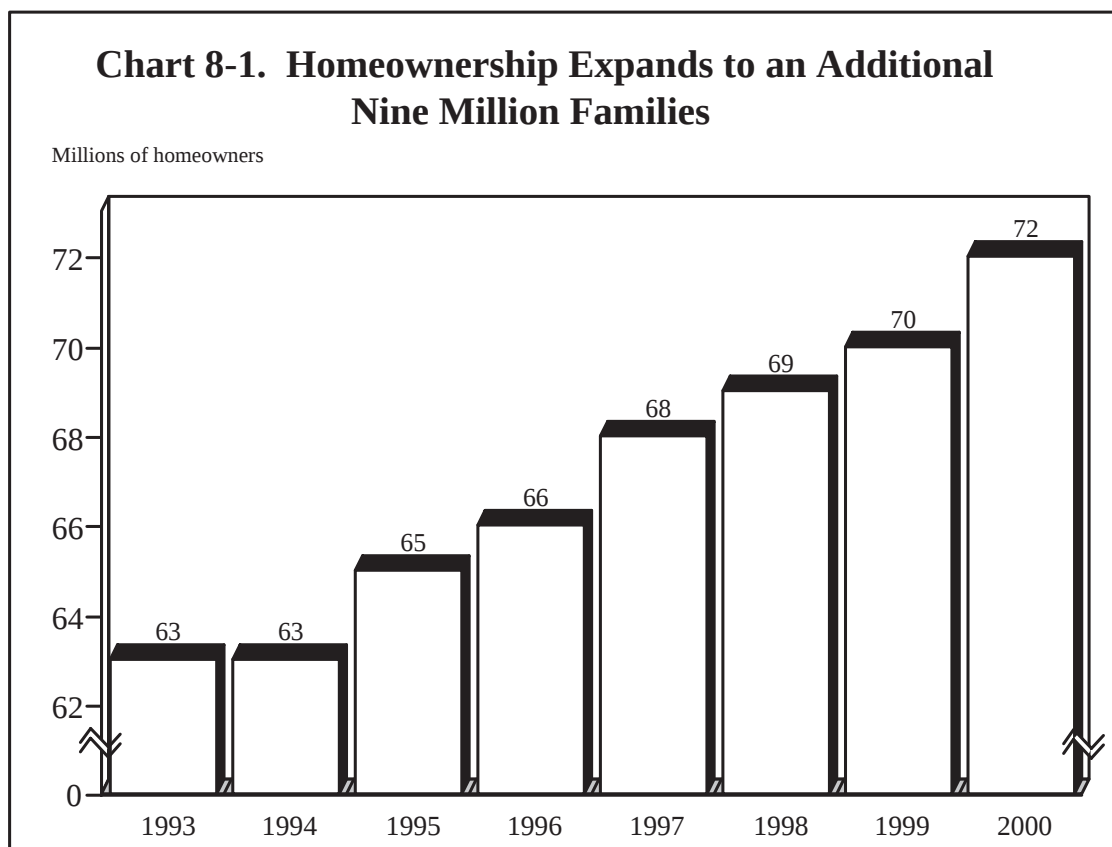
The Government provides loans and loan guarantees to increase homeownership, and to help low-income families afford suitable apartments. Housing credit programs of the Departments of Housing and Urban Development (HUD), Agriculture (USDA), and Veterans Affairs (VA) supported \$123 billion in loan and loan guarantees in 2000, an increase of almost 10 percent from 1993. All of these programs have contributed to the success of the President's National Homeownership Initiative which, along with a strong economy, helped boost national homeownership from 63 million in 1993 to 72

million in 2000, exceeding the Administration's goal and reaching a record level (see Chart 8-1).

HUD's Federal Housing Administration (FHA): The Mutual Mortgage Insurance Fund, run by the FHA, helps increase access to single-family mortgage credit across the United States. In 2000, the MMI Fund insured over \$86 billion in mortgages for almost 900,000 households. During this Administration, FHA strengthened the financial health of the MMI Fund while guaranteeing more loans for borrowers and reducing the rate of property foreclosures. FHA also now serves more underserved borrowers than it did at the start of this Administration, e.g., over 80 percent of FHA borrowers who purchased their homes in 2000 are first-time homeowners, up from 67 percent in 1993, and 42 percent of FHA borrowers who purchased their homes in 2000 belong to a minority group, as compared to only 23 percent in 1993. As noted in Table 8-2, FHA also insures mortgage loans for multi-

family housing as part of its General Insurance and Special Risk Insurance Fund.

USDA's Rural Housing Service (RHS): RHS offers direct and guaranteed loans and grants to help very low- to moderate-income rural residents buy and maintain adequate, affordable housing. The RHS direct loan program for single family housing provides subsidized direct loans to very-low and low-income rural residents who would be unable to get credit elsewhere. The RHS guaranteed loan program for single family housing guarantees up to 90 percent of a private mortgage. During this Administration, the RHS single family housing programs together provided 500,000 rural families with decent, safe, affordable homes, significantly reducing the number of rural residents living in substandard housing. In 1993, RHS financed approximately 42,000 home loans, and in 2001 it expects to provide 57,000 loans, a 36-percent increase.



During this period, RHS also significantly improved its customer service to its 650,000 housing borrowers, as well as its financial accountability by centralizing the servicing of its single family housing direct loan portfolio. Through this effort, RHS established an escrow system; reduced operating costs, loan losses, foreclosures and delinquency rates; and, brought RHS accounting more in line with the commercial sector. These new efficiencies enabled RHS to provide more subsidized loans with no additional budget authority. Since 1993, the RHS single family housing programs provided almost \$30 billion in direct loans and loan guarantees.

Veterans' Affairs (VA): VA recognizes the service that veterans and active duty personnel provide to the Nation by helping them buy and retain homes. The Government partially guarantees loans from private lenders, providing \$20 billion in loan guarantees in 2000. One of VA's key goals has been to improve loan servicing to avoid veteran foreclosures. Over the past several years, VA has

decreased foreclosures by approximately 10 percent.

Ginnie Mae: The Congress created Ginnie Mae in 1968 to support the secondary market for FHA, VA, and RHS mortgages through securitization. Ginnie Mae securitizes the majority of FHA, VA, and RHS mortgages, and together with the Government-sponsored enterprises that operate in the secondary market for mortgages, provides lenders with the liquidity to maintain a steady supply of credit available for housing.

Expanding Access to Decent Housing

The Federal Government provides rental housing assistance through a number of HUD and USDA programs. (Spending on housing assistance is included in Chapter 14, "Income Security.") These rental assistance programs provide subsidies for 4.9 million low-income households.

HUD expanded rental assistance to help more than 250,000 low-income families from 1993 through 2001. The number of families

Table 8-2. Selected Federal Commerce and Housing Credit Programs: Credit Programs Portfolio Characteristics

(Dollar amounts in millions)

	Dollar volume of direct loans/ guarantees written in 2000	Numbers of housing units/ small business financed by loans/guaran- tees written in 2000	Dollar volume of total out- standing loans/guaran- tees as of the end of 2000
Mortgage Credit:			
HUD/FHA Mutual Mortgage Insurance Fund ...	86,274	873,265	449,579
HUD/FHA General Insurance and Special Risk Insurance Fund	12,506	154,492	98,888
USDA/RHS single-family loans	3,324	51,400	27,697
USDA/RHS multi-family loans	246	7,400	11,397
VA guaranteed loans	20,159	175,559	199,759
Subtotal, Mortgage Credit	122,509	1,262,116	787,320
Business Credit:			
SBA Guaranteed Loans	13,195	48,422	45,556
SBA Direct Loans	27	65	65
Subtotal, SBA Loans	13,222	48,487	45,621
Total Assistance	135,731	1,310,603	832,941

with severe housing needs has remained roughly the same from 1993 to 1999, exceeding five million households throughout the period.

This Administration proposed historic reforms in the public housing and Section 8 rental assistance programs. With bipartisan support, the Congress enacted the bulk of these reforms in the Quality Housing and Work Responsibility Act of 1998, the first significant housing bill passed in several years. The Act promotes income mixing in public housing, which reduces concentrations of poverty; gives local public housing authorities the flexibility to adopt admissions and rent policies that do not penalize working families; and, raises management performance standards for assisted-housing providers.

The Act also reforms HUD's housing voucher program to target more aid to those most in need; provides local public housing authorities with the flexibility to respond to local price changes in the rental market; expands owner participation in the program by adopting private market real estate practices; and finally, permits the use of vouchers for home purchase. Actions also were taken to make it easier for families to use vouchers in tight rental markets and to protect assisted tenants from rent increases by providing additional subsidies where necessary.

As part of its commitment to assure that all public housing residents live in decent, safe, and sanitary conditions, the Administration worked to demolish deteriorating, non-viable public housing units and replace them with either new, less-dense, mixed-income public housing or housing vouchers. In total, the Administration demolished nearly 60,000 public housing units and has funded the future demolition of 50,000 more. The President also established the One Strike and You're Out policy in 1996 to create safer assisted-housing communities. The policy gives public housing agencies the authority to screen and evict residents who are involved in drugs and drug-related crime.

USDA's RHS ensured that over the last eight years, 273,600 poor families were able to continue renting decent, safe affordable housing in areas that otherwise offer few rental housing opportunities. RHS provides direct loans to private developers for the

construction and rehabilitation of rental housing for very low- to low-income residents, elderly households, and disabled individuals. RHS combines these loans with Rental Assistance Grants to reduce the rent paid by very-low income tenants. In 1996, RHS also began a rural multifamily housing guarantee loan program.

The Administration also provided housing assistance and supportive services for the very low-income elderly and disabled to help them live as independently as possible, including the conversion of existing elderly housing to assisted living facilities. Since 1993, HUD added approximately 75,000 units to the elderly and disabled housing stock.

Providing Housing Tax Incentives

The Government provides significant support for housing through tax preferences. The two largest tax benefits are the mortgage interest deduction for owner-occupied homes and the deductibility of State and local property tax on owner-occupied homes (which collectively will cost the Government \$87 billion in 2001, a 41-percent increase since 1993). Other tax provisions also encourage investment in housing. States and localities can issue tax-exempt mortgage revenue bonds, whose proceeds subsidize purchases by first-time, low- and moderate-income home buyers. Also, installment sales provisions let some real estate sellers defer taxes. Finally, the low-income housing tax credit supports the construction or renovation of 60,000 to 90,000 units of affordable rental housing annually. The use of this tax credit increased by 114 percent since 1993.

The Community Renewal Act of 2000 increased the amount of low-income housing tax credits that may be allotted by State housing agencies to qualifying projects. The Taxpayer Relief Act of 1997 provided a new exclusion for capital gains on principal residences that substantially simplifies the tax treatment of houses for most taxpayers. Under the provision, taxpayers can exclude up to \$250,000 of capital gain on principal residences (\$500,000 for married taxpayers filing jointly).

Promoting Commerce, Technology, and International Trade

Technology and Intellectual Property

Rights: The Department of Commerce undertakes a range of activities to promote technological innovation. In 1999, the Nation's intellectual property rights system was strengthened with the passage of the landmark American Inventors Protection Act, which reformed patent law and converted Commerce's Patent and Trademark Office (PTO) into a performance-based organization to better serve America's entrepreneurs and innovators. PTO also protects U.S. intellectual property rights around the world through international treaties.

Despite record growth in applications, PTO has maintained its average processing time for both patent and trademark applications. In 2001, PTO will issue over 165,509 patents, a 54-percent increase since 1993. Also in 2001, PTO will register 211,500 trademarks, a 185-percent increase since 1993.

Commerce's National Institute of Standards and Technology (NIST): NIST works with industry to develop measurements, standards, and technology to promote American competitiveness. NIST also assists industry through the Advanced Technology Program (ATP) and the Manufacturing Extension Partnership (MEP). Since 1993, NIST has expanded its research into new fields such as nanotechnology and e-commerce. MEP, which disseminates technological information and expertise to smaller manufacturers, achieved nationwide coverage in 1997. Today MEP operates 400 assistance centers in all fifty States plus Puerto Rico. ATP, a public/private partnership, has administered approximately \$1.5 billion in Federal matching funds for 468 projects since its inception.

In 2001, NIST laboratories will produce over 2,200 technical publications, a three-percent increase since 1993. MEP will serve more than 33,600 clients in 2001, 7,600 more than in 1997. In that same time, MEP assistance will have increased clients' sales by \$748 million and generated \$607 million in additional capital investment. ATP will fund the research and development of 200 new technologies in 2001, a dramatic increase over the four studied in 1993.

Commerce's International Trade Administration (ITA): Since 1993, ITA has greatly expanded its outreach to small and medium sized firms to develop their export potential. In 2000, ITA serviced over 137,000 small to medium sized businesses, almost double the 1993 level. ITA also supported trade negotiation, market-access, and trade-enforcement activities that greatly benefit the Nation's economy.

Commerce's Bureau of Export Administration (BXA): BXA is a regulatory agency that enforces U.S. export controls. In 2001, BXA will issue 14,000 licenses for dual-use commodities (military or civilian use), 5,200 more than in 1996.

Under the Chemical Weapons Convention (CWC) implementing legislation, BXA leads international inspections of U.S. chemical production sites and regulates the export of key toxic and precursor chemicals. Regulations for CWC inspections were finalized in May 2000, ensuring U.S. compliance with CWC while protecting the proprietary commercial information of U.S. industry.

Commerce's Census Bureau and Bureau of Economic Analysis (BEA): The Census Bureau collects, tabulates, and distributes a wide variety of statistical information about Americans and the economy, including the decennial census. In addition, BEA prepares and interprets U.S. economic accounts, including the Gross Domestic Product. BEA and the Census Bureau are also leading Government efforts to monitor and analyze the impacts of the new Digital Economy.

Since 1993, the Census Bureau has completed a wide array of demographic and economic surveys and censuses, including the constitutionally-mandated decennial census of population, which is used for apportioning seats in the House of Representatives across States, redistricting within States, and the distribution of nearly \$200 billion in Federal funds to States and localities. During Census 2000, the Census Bureau mailed or hand delivered census forms to 120 million households nationwide. Non-response follow-up interviews were also conducted with approximately 42 million households. This year, the 67-percent mail response rate improved over the 65-percent response rate for the

1990 Census, arresting a decades-long decline in mail response. The Census Bureau also completed, on schedule and ahead of the 1990 Census pace, the collection of data from the remaining households that did not respond by mail (33 percent). While the Census Bureau must await the results of the Accuracy and Coverage Evaluation survey to determine the ultimate accuracy and completeness of Census 2000, the Census Bureau is classifying Census 2000 as an operational success.

Small Business Administration (SBA): SBA assists and promotes small business by expanding access to capital through guaranteed private sector loans. SBA guaranteed over \$14.5 billion in small business loans in 2000. SBA loans carry longer terms and lower interest rates than those for which small businesses would otherwise qualify. Between 1993 and 2000, SBA guaranteed \$80.6 billion in loans compared to the \$78.0 billion in loans guaranteed between 1953 and 1992. SBA also provides technical assistance and venture capital.

A key component of the Administration's economic development strategy over the past eight years has been to increase access to capital and credit for women- and minority-owned firms. Between 1993 and 2000, SBA provided \$12 billion in loans to women, which is more than double the \$5.7 billion provided in the previous nineteen years between 1973 and 1992. Likewise, SBA provided \$18.4 billion in loans to minorities between 1993 and 2000, which is more than double the \$7.9 billion provided between 1953 and 1992. Further, Federal contract awards to minority-owned firms increased to \$6.2 billion in 1999 from \$3.4 billion in 1990.

Complementing SBA's loan programs are technical assistance programs, which increase the borrower's probability of success. For instance, to date, SBA has not experienced any defaults on its direct microloan program, which has a substantial technical assistance component. This suggests that technical assistance has had a positive impact. The Administration also increased the number of small businesses receiving counseling and training to 1.15 million in 2000 from 900,000 in 1993. Outreach efforts are expected to reach 1.2 million small businesses in 2001.

The New Markets initiative, enacted in December 2000, is the Administration's most recent effort to foster private-sector investment in rural and inner-city communities. New Markets Venture Capital, New Markets Technical Assistance, and the BusinessLINC programs provide \$250 million in public and private capital, plus technical assistance to increase entrepreneurial success and mentoring opportunities for aspiring small businesses.

Federal Trade Commission (FTC): The FTC enforces various consumer protection and antitrust laws that prohibit fraud, deception, anti-competitive mergers, and other unfair and anti-competitive business practices in the marketplace. Since 1992, the FTC has obtained judgments for over \$800 million in consumer redress and established a consumer complaint database that is shared with more than 270 law enforcement partners. The FTC continues to protect the marketplace by successfully monitoring a record number of corporate merger transactions that have tripled in volume over the last eight years. Congress recently enacted Administration-proposed legislation that will make the merger-review process more equitable by establishing a new three-tiered fee structure that increases the bottom filing threshold.

Federal Communications Commission (FCC): As the introduction of wireless, Internet-based and new communication technologies continues to grow, the FCC has focused on market-based solutions in a deregulatory environment. The FCC's market-based auctions program has been a driving force in promoting efficient use of the spectrum and recovering a fair return to the general public for this resource, including over \$20 billion in actual and estimated cash receipts through 2001. The auctions program also fostered a four-fold increase in the number of wireless phone subscribers and enabled a 40-percent drop in wireless phone bills. Over the past four years, local telephone service competition increased significantly in large part due to the FCC's aggressive implementation of the Telecommunications Act of 1996. Over the past three years, the FCC fully funded the E-rate program to wire 82 percent of public schools and 51 percent of public libraries to the Internet. The FCC also expanded services to those in

underserved communities, including Native Americans and the 54 million Americans with disabilities.

Providing Tax Incentives for Commerce

The tax law provides incentives to encourage business investment. The Government taxes capital gains at a lower rate than other income. The tax law provides more generous depreciation allowances for machinery, equipment, and buildings. This business incentive will cost the Government \$33 billion in 2001, a 68-percent increase since 1993. Other tax provisions benefit small firms generally, including the graduated corporate income tax rates, preferential capital gains tax treatment for small corporation stock, and write-offs of certain investments. Credit unions, small insurance companies, and insurance companies owned by certain tax-exempt organizations also enjoy tax preferences.

The Taxpayer Relief Act of 1997 significantly changed the tax treatment and lowered tax rates for long-term capital gains. Also, during the last four years, several capital gains provisions were enacted to limit certain perceived abuses related to capital gains taxes. The capital gains tax incentive cost the Government \$6 billion in 1993, but it will cost the Government almost \$42 billion in 2001. In addition, the law does not tax gains on inherited capital assets that accrue during the lifetime of the original owner. Tax law changes during this Administration also provided an increase in expensing for small businesses, and an increase in the top corporate tax rate.

Regulating Financial Institutions and Markets

Federal Deposit Insurance: Federal deposit insurance protects depositors against

losses when insured commercial banks, thrifts (savings institutions), and credit unions fail. From 1985 to 1995, this insurance protected depositors in over 1,400 failed banks and 1,100 failed thrifts, with total deposits of over \$700 billion. As of June 2000, the Bank Insurance Fund, the Savings Association Insurance Fund, and the Credit Union Share Insurance Fund insured total deposits of more than \$3.3 trillion. Five agencies regulate federally-insured depository institutions to ensure their safety and soundness: the Office of the Comptroller of the Currency regulates national banks; the Office of Thrift Supervision regulates thrifts; the Federal Reserve regulates State-chartered banks that are Federal Reserve members; the Federal Deposit Insurance Corporation regulates other State-chartered banks; and, the National Credit Union Administration regulates credit unions.

Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC): The SEC regulates U.S. capital markets and the securities industry and facilitates capital formation. The CFTC regulates U.S. futures and options markets. Both regulators have protected investors during a period of unprecedented growth in our Nation's financial markets. Between calendar years 1990 and 1999, trading volume on stock exchanges and NASDAQ increased by nearly five times, and dollar volume increased by more than nine times. Additionally, an increasing number of Americans now participate in the Nation's financial markets. For example, the number of households that own mutual funds has increased by 60 percent since 1994. Today, nearly half of all households own mutual funds.

9. TRANSPORTATION

Table 9-1. Federal Resources in Support of Transportation

(Dollar amounts in millions)

Function 400	1993 Actual	2001 Estimate	Percent Change: 1993–2001
Spending:			
Discretionary budget authority	13,973	19,058	36%
Obligation limitation	20,391	38,475	89%
Mandatory outlays	1,746	2,169	24%
Credit Activity:			
Direct loan disbursements	34	669	NA
Guaranteed loans .....	.....	546	NA
Tax expenditures	1,815	2,220	22%

NA = Not applicable.

Effective and safe transportation is an indispensable component of our economy and society. The Nation's prosperity and growing standard of living over the past eight years is due in no small part to the growing strength of our transportation system and the policies that have supported it. Our system is now safer, more accessible, and better prepared to meet the challenges and opportunities presented by economic success, technological innovation, and environmental preservation needs. The Clinton-Gore Administration has provided a strong, effective foundation on which to shape the transportation system in the 21st Century.

The Federal Government funded transportation programs at \$37 billion in 1993. Over the past eight years, transportation funding increased by \$22 billion, or 59 percent. Funding for roads, bridges, transit, and railroads has increased by 75 percent, and for aviation, 42 percent. Funding for the safety, security, and efficiency of our Nation's waterways has risen 14 percent. These increases were secured particularly because of bipartisan efforts to enact highway and aviation reauthorization laws. The Transportation Equity Act for the 21st Century (TEA-21) and the Ford Aviation Investment and Reform Act for the 21st Century (AIR-21) are laws that will

ensure increasing transportation resources as needs continue to grow.

Through transportation investments, the Administration has positively influenced transportation safety, mobility, economic growth, the human and natural environment, and national security. These strategic areas have been the focus of the Department of Transportation's (DOT) multi-year Strategic Plan and annual Performance Plans in managing for results. DOT's 1999 performance report showed that the Department met or saw positive trends in 77 percent of its performance goals.

Safer Operations

Improving transportation safety has been the number one transportation objective of this Administration. Highway fatality and injury rates have been pushed to all time lows, even with an increasing amount of traffic. Seat belt use is up and the percent of highway fatalities that are alcohol-related is down. If the highway fatality rate of 1992 had held steady, instead of declining as it has, approximately 4,000 more people would have died last year. The commercial aviation fatal accident rate has declined from the beginning of the decade. Recreational boating fatalities have declined despite a

steady increase in the number of boats on the water. The rail-related fatality rate has fallen significantly since 1993.

Highways: The Administration has strengthened Federal programs that reach out to State and local partners, industry, and health care professionals to identify the causes of crashes and develop new strategies to reduce deaths, injuries, and resulting medical costs. These partnerships have yielded results—in 1999, for example, the Nation's safety belt use rate was 19 percent higher than in 1991.

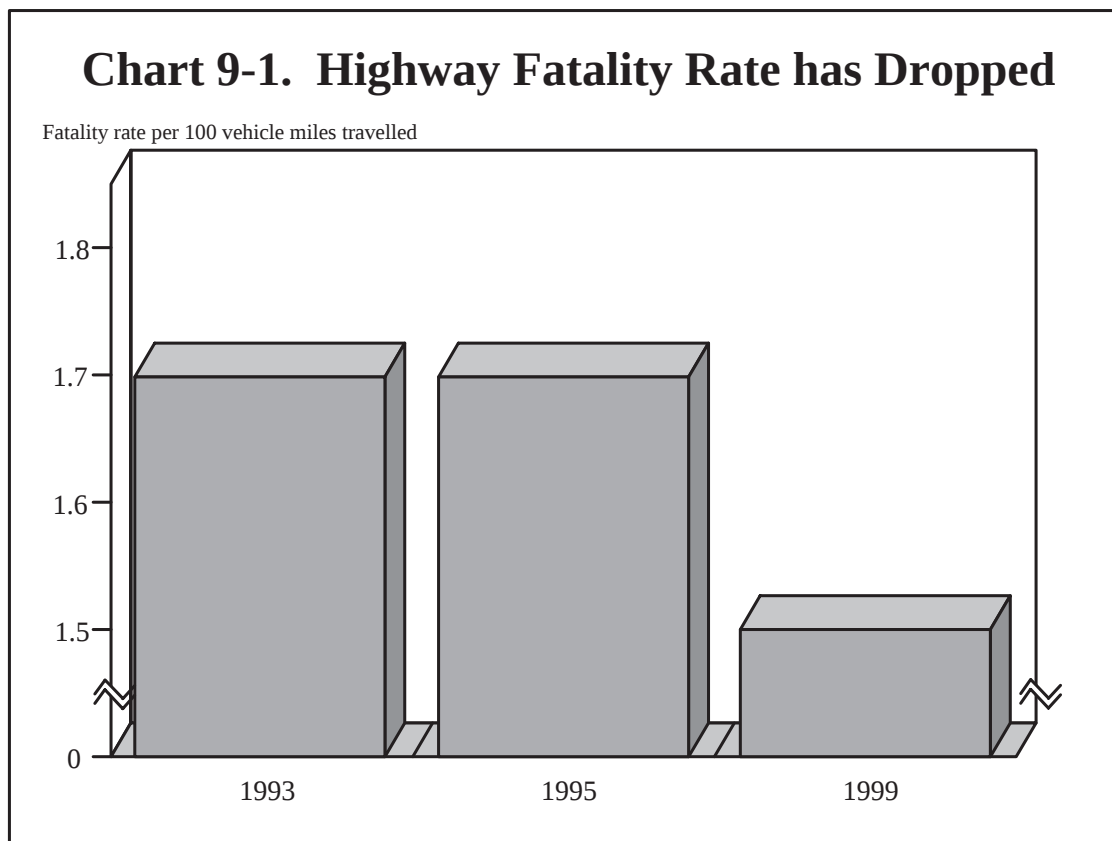
Alcohol related highway fatalities in 1999 represented 38 percent of all highway deaths—more than a 12-percent reduction from the 1993 level. Success in reducing alcohol related deaths was recently reinforced by securing a .08 Blood Alcohol Content sanction that will encourage States to adopt this stronger threshold standard for drunk driving. The .08 standard is 20 percent more stringent

than the prior .10 Blood Alcohol Content standard.

Overall, highway-related fatalities have reached record lows. In 1993, the rate of highway-related fatalities and injuries per 100 million vehicle miles traveled was 1.7 for fatalities and 137 for injuries. In 1999, the fatality rate had fallen to 1.5 and the injury rate was 120. (See Chart 9–1.)

The Administration has laid a strong foundation for further improvements in road safety. The National Highway Traffic and Safety Administration issued a final rule aimed at making child safety seat restraint systems safer and easier for parents. Future motor vehicles will include child restraint systems that are standardized and independent of vehicle seat belts.

Improving the safety of commercial trucking has also been a key safety focus. The newly-established Federal Motor Carrier Safety Administration (FMCSA), created in 1999 with



bipartisan support, is increasing motor carrier enforcement, improving data, and expanding roadside inspections. States are now receiving dedicated funding to heighten enforcement of commercial drivers (e.g., truck and bus drivers) licenses in an effort to keep improperly registered vehicles and drivers off our Nation's highways. FMCSA develops uniform standards that improve commercial motor vehicle and driver safety, helps coordinate law enforcement activities, and aligns interstate trucking safety requirements.

FMCSA is currently engaged in dialogue with interested parties and the public regarding proposed changes to its motor carrier hours-of-service regulation. Proposed stronger rules based on the latest scientific data on driver fatigue were developed and promoted by the Administration.

Transit: The Federal Transit Administration has focused resources on safety and security technologies, establishing a compliance audit program, and providing training and technical assistance to help transit agencies increase the safety and security of their riders and employees. In 1993, the rate of transit-related fatalities and injuries per 100 million passenger miles traveled was 0.61 and 129, respectively. By 1999, the fatality rate had fallen to 0.53, and the injury rate to 115.

Aviation: The Federal Government's most visible transportation safety function is air traffic control and navigation. The Federal Aviation Administration (FAA) handles over two flights a second, moving 1.8 million passengers safely each day. In 2000, the FAA performed over 293,000 aviation safety inspections.

The Administration devoted considerable attention to improving aviation safety over the last eight years. The White House Commission on Aviation Safety and Security produced a comprehensive set of policy, regulatory, and research-based recommendations aimed at improving the aviation system over the long term. Most of these recommendations have been implemented by the Administration, such as the development and dissemination of improved aviation safety data, development and deployment of explosives and weapons detection technology, and expanded research into aging aircraft.

In addition, FAA has significantly expanded the safety inspector workforce to meet the demands of growing air traffic. Since 1993, the FAA has added 681 safety inspectors to its workforce. FAA inspectors are also better equipped with the skills and technology needed to identify safety issues, and have that information better disseminated to assess trends and make more informed, risk-mitigating decisions.

Efforts to improve aviation safety have yielded results. The commercial aviation fatal accident rate has fallen by 47 percent since 1992.

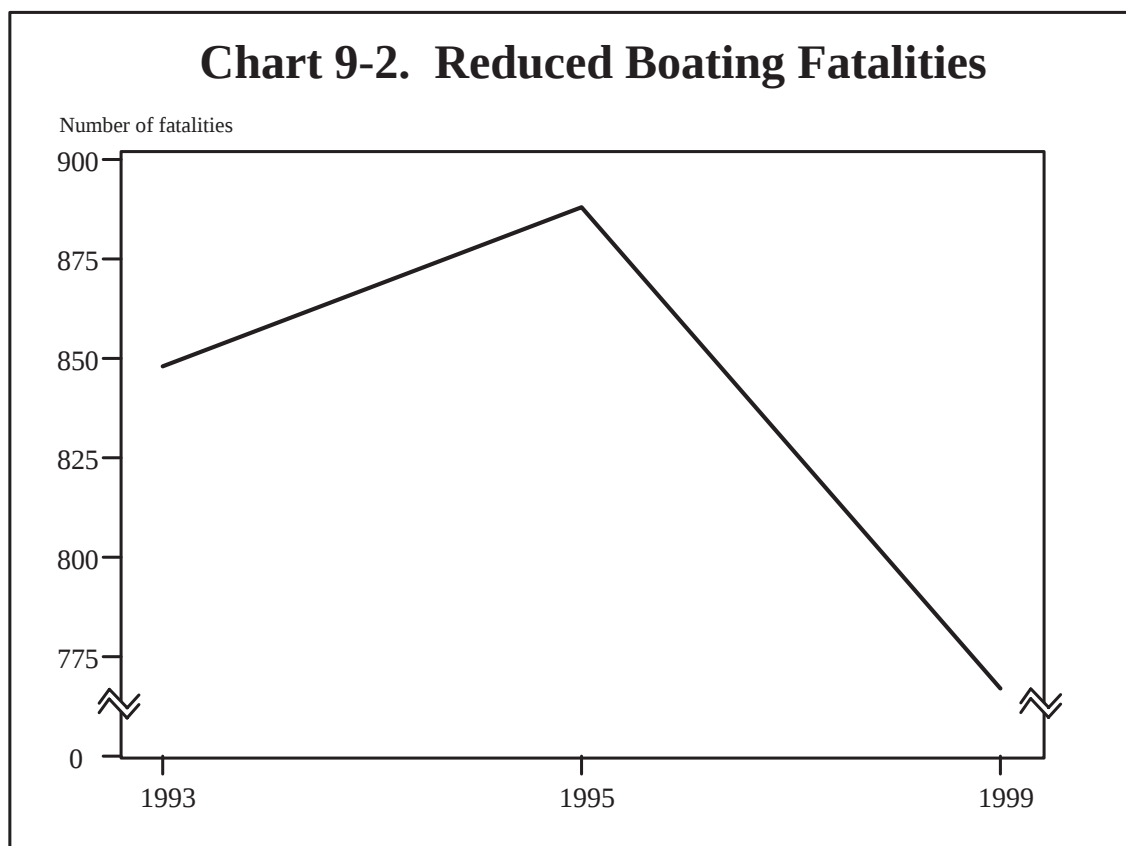
Waterways: The Coast Guard also plays a key safety role on our waterways. In an average year, through its search and rescue operations, the Coast Guard saves thousands of lives and approximately \$2.5 billion dollars in property. In addition, the Coast Guard guides vessels through busy ports, operates reliable and safe navigation systems, regulates vessel design and operation, enforces U.S. and international safety standards, provides boating safety grants to States, and supports a 35,000-member voluntary auxiliary that provides safety education and assists regular Coast Guard units.

A key measure of the Administration's success in waterway safety is the reduction in the number of recreational boating fatalities. From 1993 through 1999, recreational boating fatalities have fallen even though the number of boats has increased. (See Chart 9-2.)

Railroads: The Federal Railroad Administration has improved railroad safety, in particular by strengthening the Safety Assurance and Compliance program. The program brings together rail labor, management and the Federal Government to determine root safety problems. From 1993 through 1999, the railroad-related fatality rate fell by 37 percent.

Effective Infrastructure and Efficiency Investment

In 1999, the U.S. transportation system served more than 260 million people and six million businesses. It supported 4.6 trillion passenger-miles and 3.9 trillion cargo ton-miles. The Administration pursued policies



over the last eight years aimed at maintaining and improving the condition of the system to support this tremendous volume, while at the same time advancing the quality, efficiency, and the intermodal character of the Nation's infrastructure. Federal investments have ensured that the Nation will meet commerce transportation needs and ultimately advance economic growth and international competitiveness through improved economic efficiency.

Innovative Financing: The Administration implemented a number of new transportation financing innovations designed to streamline procedures, improve existing programs, and implement new ideas for improving the Nation's transportation infrastructure. In total, these initiatives are helping advance over 200 projects, representing a total capital investment of \$24 billion. For example, the new Transportation Infrastructure Finance and Innovation Act (TIFIA) program provides Federal credit assistance to major transportation in-

vestments of critical national importance, such as: intermodal facilities; bridges; highway trade corridors; and transit and passenger rail facilities with regional and national benefits. In 2000, \$37 million of TIFIA funding supported \$638 million in credit assistance.

The Administration also implemented other innovative financing tools during the past eight years, such as Grant Anticipation Revenue Vehicle bonds (GARVEEs) and the Railroad Rehabilitation and Improvement Financing program (RRIF). With GARVEE bonds, a State can pledge its future Federal highway apportionments as a source of revenue for repayment of the bonds. Five States have issued highway GARVEE bonds totaling \$942 million. A final rule implementing the RRIF program, which can provide up to \$3.5 billion in loans and loan guarantees for rail projects, became effective in September of 2000.

Highways and Bridges: More than 957,000 miles of roads and bridges are eligible for Federal-aid Highway support, including the National Highway System and Federal lands roads. The Administration has recognized and supported a strong partnership between the Federal, State, and local governments in improving our road and bridge infrastructure to achieve national transportation goals. In 1999, State and local governments provided 63 percent of highway and bridge infrastructure spending, most of which is generated through their own fuel and vehicle taxes. From 1993 through 2001, the Administration will provide \$211 billion to maintain and expand roads and bridges with funding from Federal motor fuels taxes. Annual investments of these dollars have risen significantly. The Administration utilized nearly \$26 billion of motor fuel taxes in 2000 for highways and bridges compared to \$18 billion in 1993. As a result, almost 5,000 miles of the National Highway System that were in unacceptable condition in 1993 are now in acceptable condition, and the percentage of our Nation's bridges deemed structurally deficient has fallen.

Transit: As with highways, the Federal Government assists State and local governments to improve mass transit. A portion of the Federal motor fuels tax goes to the Highway Trust Fund's Mass Transit Account, which funds transit grants to States and urban and rural areas. Federal capital grants comprise about half of the total spent each year to maintain and expand the Nation's 6,000 bus, rail, trolley, van, and ferry systems. Together, States and localities invest over \$3.5 billion a year on transit infrastructure and equipment above funding provided by the Federal Government.

The Administration has led efforts to increase investments in the Nation's transit systems. In 2000, the Federal Transit Administration spent \$5.6 billion on improving and expanding transit infrastructure. This compares with \$2.8 billion in 1993. The Federal Government's role has been important in financing new urban bus and rail transit systems, as well as rural bus and van networks. Millions of Americans choose transit for their daily commute, easing roadway congestion and reducing air pollution. Others

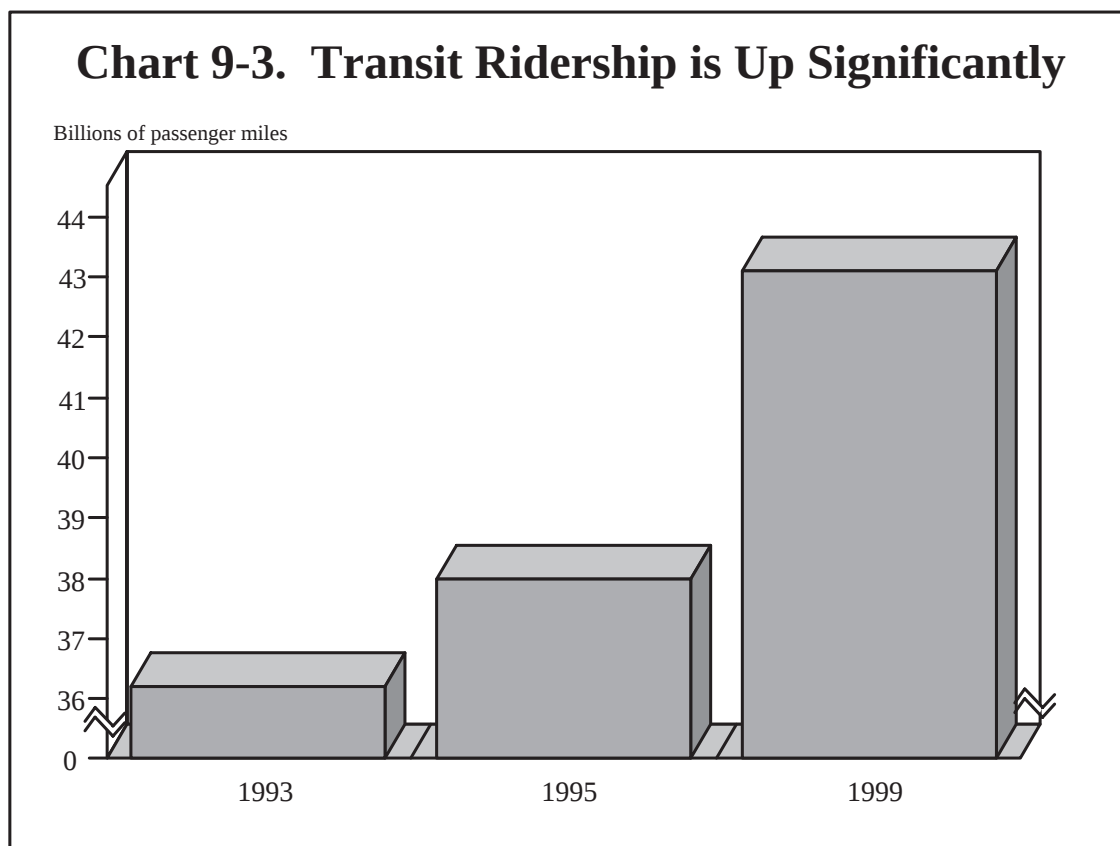
depend on public transportation due to age, disability, or income. (See Chart 9-3.)

Our leadership in transit has expanded economic opportunity. The Job Access and Reverse Commute program is assisting welfare recipients and low income individuals reach employment opportunities. By the end of 1999, 1,742 new employment sites had been reached, giving dedicated workers access to an unprecedented number of jobs nationwide. Overall, transit ridership has grown significantly in recent years, from 36.2 billion passenger miles in 1993 to 43.1 billion in 1999. Nearly 300 miles of new rail transit service have been opened since 1993, and another 150 miles is under construction or has a Federal commitment for construction. The new lines under development will serve over 500,000 riders per day.

Passenger Rail: Rail service plays an important role in improving transportation mobility, and it offers an environmentally sound alternative to adding highway capacity to congested corridors. The Administration has worked with Amtrak to improve its financial position to ensure intercity passenger rail service is an integral part of our intermodal transportation system. Both the Taxpayer Relief Act of 1997 and the Amtrak Reform and Accountability Act of 1997 have provided critical resources to address its capital needs and place Amtrak on a glide path to self-sufficiency.

Amtrak has substantially improved its capital infrastructure and the quality of its services. Federal funding has been targeted to those investments which make good financial sense for the long-term health of the company and generate substantial benefits for the general public. For example, Amtrak successfully introduced Acela Express high-speed rail service along the Northeast Corridor. This service has reduced train travel time between Boston and New York by 29 percent. The Administration has supported legislation that authorizes Amtrak to issue \$10 billion in tax credit bonds over ten years for capital improvement purposes.

However, Amtrak faces a number of challenges to its long term financial viability. In a recent report to the Congress, the General Accounting Office (GAO) concludes that Amtrak will need to continue to work



to reduce system-wide operating losses, increase labor productivity, and improve passenger service. GAO indicates that Amtrak has capital needs exceeding \$9 billion through 2015. These needs include safety improvements on tunnels and bridges in the Northeast Corridor.

Aviation and Airports: The Administration has made important progress in modernizing our aviation infrastructure through the FAA: modern workstations for air traffic controllers are being deployed; technologies to improve separation of aircraft are substantially increasing aviation capacity; and, efficiency and safety-enhancing global position system (GPS)-based navigation systems are nearing final development to reduce dependency on older ground-based systems.

Progress has also been made in improving the condition and capacity of our airports. While the Federal Government contributes a relatively small portion of money spent

on airport infrastructure, Federal investment has nevertheless helped improve airport runway conditions since 1993, and therefore access and capacity. Airport Improvement Program funds augment other airport funding sources, such as bond proceeds, State and local grants, and passenger facility charges, which airports are permitted to assess on passengers. With 98 percent of the U.S. population living within 20 miles of a public-use airport, most citizens now have excellent access to air transportation.

To ensure the effective and efficient use of aviation resources, the Administration led efforts to implement acquisition, financial and personnel reforms at the FAA. Procurement reforms have enabled the FAA to pre-screen contractors to ensure that firms have the capabilities and experience to deliver technology systems that improve air traffic control. Personnel reform has resulted in a pay-for-performance system focusing employees on key agency goals. Financial reform

is helping the agency better understand its costs.

While these reforms are critical, they do not go far enough to address more fundamental problems in the management of our air traffic control system. This past December, the Administration announced the creation of a performance-based organization, or “PBO”, within the FAA to focus solely on the efficient operation of the air traffic control system. The PBO will be run by a Chief Operating Officer, with oversight provided by an Air Traffic Services Subcommittee of the FAA’s Management Advisory Council. The Administration also directed DOT to assess impediments to market mechanisms for promoting more effective and efficient use of airport runway capacity, such as congestion pricing. Market mechanisms must also encourage better use of FAA services and efficient agency management, and the Administration called on the Congress to replace ticket taxes with cost-based fees on commercial users for FAA services.

The Administration has succeeded in improving aviation access and economic growth through “open skies” agreements with other nations. Through the efforts of the DOT, the United States has open skies agreements with over 50 countries. More of our citizens now have improved access to the world, at a lower cost.

National Security and Maritime Transportation: A commitment to marine transportation infrastructure has led to improved national competitiveness and strengthened our national security. Due to steps taken by the Maritime Administration and the Military Traffic Management Command, the percentage of DOD-designated ports able to meet DOD readiness requirements increased from 57 percent in 1997 to 93 percent in 1999. Federal loan guarantees issued by the Maritime Administration have made it easier to build and renovate vessels in U.S. shipyards. In 1999, loan guarantees were awarded for the construction of two large cruise passenger vessels, the first to be built in the United States in 50 years. The Maritime Administration and the Coast Guard are co-leading a new effort to develop more comprehensive coordination, leadership, and cooperation among Federal,

State, and local agencies and private sector owners and operators of the Marine Transportation System.

Investments in the Coast Guard have made a difference in our Nation’s war on drugs. The Coast Guard has invested in measures to improve its military readiness through fleet modernization, increased maintenance resources, improved logistics and expanded training levels. As a result, the maritime cocaine seizure rate has doubled since 1993. The Coast Guard has made the largest annual drug seizure in its history in each of the past two years—about 51 and 57 metric tons in 1999 and 2000, respectively. Nonetheless, the Coast Guard’s fleet is aging and will require additional investment in order to maintain its effectiveness.

Expanded Transportation Access

Progress has also been made in areas of the country, such as Appalachia and the Mississippi Delta region, where accessibility is limited. Between 1993 and 1999, 349 miles of the Appalachian Development Highway System were built, bringing the total miles completed to 80 percent of the goals. In the Mississippi Delta region, \$2.1 billion in discretionary grants have been made available since 1993 to facilitate investment in highways, transit and job access.

The Administration has also worked to improve transportation along critical borders and corridors where traffic is rapidly growing due to expanded trade in the Western Hemisphere. Since 1993, over \$360 million has been provided through the Borders and Corridors Program for the planning, design, construction and related activities of projects that develop the 43 corridors identified by the Congress, and for other significant corridors and projects along the Canadian and Mexican borders.

Improved Environmental Protection

Undesirable environmental consequences can be an unfortunate by-product of our transportation system. The Administration has sought to avoid or mitigate transportation’s adverse effects on the environment. Reducing air pollution from vehicles has been a focal point. Since 1993, programs such as Conges-

tion Mitigation and Air Quality Improvement have contributed to reducing vehicular emissions. Minimizing water pollution through the prevention of oil spills has also been a priority. More than half of the oil used in the United States is imported, most of it arrives by tanker. Since 1993, the Coast Guard has helped reduce the amount of oil spilled into the Nation's coastal waters by over 50 percent.

Aircraft noise also has substantially decreased in recent years. Progress has been achieved through mandated replacement of older aircraft with newer, quieter models, and phase-out of older, noisier airplanes is now complete. Compared with 1993, about two-thirds fewer people are exposed to high levels of aircraft noise around our Nation's airports.

Significant progress has also been made in the protection of our Nation's wetlands. Occasionally, transportation projects, particularly the construction of highway bridges, affect wetlands. This Administration has avoided adversely affecting wetlands wherever possible. When impacts were unavoidable, wetlands were replicated at a ratio of 2.3 acres per acre affected.

Successful Research, Development and Technology

The Administration has invested heavily in important transportation research through the Department of Transportation and NASA to enable the continual evolution of our transportation system into one that is growing in efficiency, safety, and environmental compatibility.

Investments in Intelligent Transportation Systems (ITS) are improving mobility, productivity and safety. For example, the installation of ramp meters has increased freeway capacity in Seattle by 10 percent and reduced accident rates on freeways in Minneapolis by over 20 percent. Automatic vehicle location technology on buses in Baltimore improved on-time performance by 23 percent. Incorporating ITS into new roadways saves an estimated

35 percent of the cost of providing the same capacity through traditional highway construction alone.

The Administration has sought to develop cutting-edge technologies to take advantage of the transportation opportunities of the GPS. The Coast Guard developed and implemented the Differential GPS system used by mariners worldwide, and began expanding the system for nationwide use. Similarly, FAA developed the Wide-Area Augmentation System, which improves the accuracy and integrity of the GPS signal for aviation and other uses.

Through the National Research Plan for Aviation Safety, Security, Efficiency, and Environmental Compatibility, NASA and the FAA coordinate closely on the development of new technologies to meet the challenges of the Nation's growing air system. For example, NASA has developed technologies that could safely increase airport runway capacity by five percent. The FAA is using a NASA-developed system to improve aircraft sequencing at one of the world's busiest airports, Dallas-Fort Worth, preventing an estimated \$9 million annually in aircraft delay costs. Another NASA system is improving the efficiency of ground operations at six high-volume airports.

This Administration has strongly supported the Advanced Vehicle Technologies Program, which combines the best in transportation technologies and innovative program management to produce new vehicles, components, and infrastructure to respond to medium- and heavy-duty transportation needs, performance requirements, and environmental standards. This program improves the overall energy efficiency and U.S. competitiveness while reducing emissions and transportation dependence on petroleum. Since 1993, this public/private partnership initiated over 300 projects with 450 companies and helped develop technologies such as hybrid electric transmissions, auxiliary power units and motors, and advanced battery and charger systems.

10. COMMUNITY AND REGIONAL DEVELOPMENT

Table 10-1. Federal Resources in Support of Community and Regional Development
(Dollar amounts in millions)

Function 450	1993 Actual	2001 Estimate	Percent Change: 1993-2001
Spending:			
Discretionary budget authority	9,600	10,997	15%
Mandatory outlays	760	-670	NA
Credit Activity:			
Direct loan disbursements	2,383	2,332	-2%
Guaranteed loans	297	3,456	NA
Tax expenditures	850	1,400	65%

NA = Not applicable.

Investing in our communities helps bring prosperity to all Americans. Federal support for community and regional development helps build the Nation's economy and helps economically distressed urban and rural communities secure a larger share of America's prosperity. The Federal Government spends nearly \$11 billion a year, and offers about \$1.4 billion in tax incentives to help States and localities create jobs and economic opportunity, and build infrastructure to support commercial and industrial development. Federal programs have stabilized and revitalized many of these communities, allowing them to expand their economic base and support their citizens, particularly those in need.

During the past eight years, the Clinton-Gore Administration has succeeded in promoting high-employment, low-poverty policies that have assisted communities in tackling the challenges of a new economy shaped by technological innovation and information processing. Growth in the technology sector accounts for more than 25 percent of all new jobs, and these positions are primarily located in cities and suburbs. From 1992 to 1998, many communities registered dramatic decreases in unemployment, which fell

in urban areas from 8.5 percent to 5.1 percent.

The Administration's community and economic development agenda has been built on the following components:

- Assisting communities in making the transition to the new economy by increasing access of under served communities to the capital and technical expertise they need to take advantage of untapped markets for labor, retail, and land.
- Addressing the challenges of an aging and increasingly diverse population by helping communities address the affordable housing crisis one that threatens regional competitiveness and family self-sufficiency.
- Giving communities the tools and resources that they need to build safe and livable communities.

Housing and Community Development

The communities experiencing the greatest economic growth often have the most severe housing problems, affecting both low and middle income residents who find it increasingly difficult to obtain housing that they can afford. The Department of Housing and

Urban Development (HUD) provides communities with funds to promote commercial and industrial development, enhance infrastructure, and develop strategies for providing affordable housing close to jobs. HUD also provides grants and sponsors research to reduce the hazards created by lead-based paint in housing.

Community Development Block Grants (CDBG) provide funds for various community development activities directed primarily at low- and moderate-income persons. CDBG funds go to improving housing, public works and services, promoting economic development, and acquiring or clearing land. Seventy percent of CDBG funds go to more than 1,000 central cities and urban counties, and the remaining 30 percent go to States to award to smaller localities. The Section 107 set-aside within CDBG, the University Partnerships Program, provides grants to academic institutions including Historically Black Colleges and Universities, Hispanic Serving Institutions, and Tribal Colleges. The Indian CDBG, also a set-aside within the CDBG program, focuses mainly on public infrastructure, community facilities, and economic development on reservations.

HUD's HOME Investment Partnership Program supports construction of new housing, rehabilitation of existing homes, acquisition of standard housing, home ownership counseling assistance, and tenant-based rental assistance.

The 1993 to 2001 accomplishments for the CDBG, HOME, and lead-based paint programs include:

- producing approximately 1,495,284 units of rehabilitated and newly constructed housing for ownership and rental through the CDBG program;
- creating more than 1,103,595 jobs through CDBG;
- awarding more than \$12.2 billion to HOME Participating Jurisdictions;
- constructing, renovating, or rehabilitating more than 600,000 housing units with HOME funds; and,
- developing in 2000 a strategy to virtually eradicate childhood lead poisoning by

2010, through the President's Task Force on Environmental Health Risks and Safety Risks to Children (a group that includes HUD, EPA, HHS, and other Federal agencies).

Empowerment Zones and Economic Development Tax Incentives

Empowerment Zones (EZs) provide tax incentives and grants to carry out 10-year, community-wide strategic plans to revitalize designated areas. Under the leadership of the Vice President and the Community Empowerment Board, which the Vice President has chaired, this Administration has enjoyed considerable success in developing and expanding EZs. Since the first communities were designated in 1994, the accomplishments for the Administration's EZ and Enterprise Community (EC) program include:

- leveraging more than \$12 billion in additional public and private sector investment in community revitalization efforts;
- serving more than 319,648 EZ/EC residents through educational programs including Head-Start, GED and vocational education programs;
- providing job training for more than 200,000 EZ/EC residents;
- creating more than 120,000 jobs within the EZ/ECs; and,
- securing an additional \$200 million in 2001 grant funding for EZs.

In 1994, the Administration designated nine Round I EZs, two Supplemental EZs (which were designated full EZs in 1998) and 95 ECs. Three of the EZs and 30 of the ECs were in rural areas and administered by the Department of Agriculture (USDA). These Round I EZs and related ECs leverage private investment, expand affordable housing and home ownership opportunities, mobilize grassroots leadership, and help create jobs. In January 1999, the Administration designated 15 new urban EZs and five new rural EZs (administered by USDA) from more than 268 distressed areas that applied for new designations. These EZs, along with the 20 new rural ECs, have begun implementation of their comprehensive strategies to redevelop

their areas. Recently, the Community Renewal Tax Relief Act of 2000 also provided for the designation of nine additional EZs, with seven in urban areas and the remainder in rural areas.

Tax benefits for EZs include:

- a 20-percent wage credit on the first \$15,000 of qualified wages paid to zone residents working in the zone;
- higher up-front deductions for investments in equipment; and,
- special tax-exempt financing for certain zone property used by enterprise zone businesses.

Enterprise Communities are eligible for the tax-exempt financing benefits.

In addition, certain economically depressed census tracts within the District of Columbia were designated as the D.C. Enterprise Zone following the passage of the Taxpayer Relief Act of 1997. The benefits extended to the D.C. Zone include: the wage credit and up-front deductions, capital gains preferences for certain investments, and a first-time home buyer tax credit.

Community Capacity Building

The Department of Commerce's Economic Development Administration (EDA) provides assistance to communities to help build capacity and address long-term economic challenges through its nationwide program delivery network. EDA's public works grants help build or expand public facilities to stimulate industrial and commercial growth, such as industrial parks, business incubators, access roads, water and sewer lines, and port and terminal developments. EDA also assists communities in addressing sudden and severe economic downturns and in adjusting to downsizing and closure of defense facilities.

Since 1993, EDA's accomplishments include:

- in total, creating and retaining 511,000 jobs, investing \$3.3 billion in grants, and generating \$19.6 billion in private-sector leveraged investment;
- awarding 1,540 public works grants, totaling \$1.4 billion, for infrastructure development; and,

- awarding 650 grants totaling \$501 million to support disaster recovery efforts, and another 580 grants totaling \$830 million to assist communities in rebuilding their economies following defense-related industry downsizing and base closures.

Community Development Financial Institutions

The Treasury Department's Community Development Financial Institutions (CDFI) Fund seeks to promote economic revitalization and community development in distressed areas by increasing the availability of capital and leveraging private sector funds. The CDFI Fund provides financial and technical assistance to a diverse set of specialized, private, for-profit and nonprofit financial institutions known as community development financial institutions. CDFIs have a primary mission of community development and include community development banks, credit unions, loan funds, venture capital funds, and micro-enterprise loan funds.

Accomplishments for the CDFI Fund include leveraging more than \$3 billion in community development loans and investments through CDFI core awardees. These investments have:

- supported more than 6,000 micro enterprises;
- created or maintained about 41,000 jobs;
- developed or rehabilitated more than 52,000 units of affordable housing; and,
- supported up to 823 community facilities, including childcare centers, health care centers, charter schools and job training centers.

Rural Community Advancement

Because their needs are different, no single approach will help both urban and rural communities. To address this, the Administration developed the new Rural Community Advancement Program (RCAP). RCAP combined 12 separate USDA rural development programs into Performance Partnerships in which the Federal Government provides more flexibility while requiring more accountability for how the money is spent. RCAP grants, loans, and loan guarantees help build rural community facilities, such as health clinics,

day care centers as well as water and wastewater systems. RCAP also provides similar programs to assist rural businesses, including cooperatives, to increase employment and diversify the rural economy. Under RCAP, States have increased flexibility within the three funding “streams” for Water and Wastewater, Community Facilities, and Business and Industry. USDA State Directors have the authority to transfer up to 25 percent of the funding between any of the programs contained within a stream in order to tailor RCAP assistance to the specific rural economic development needs of individual States.

USDA rural development accomplishments since 1993 include:

- creating 122,000 jobs through RCAP;
- constructing 2,560 treatment facilities serving more than 15 million rural residents through RCAP’s wastewater program;
- increasing USDA assistance to rural businesses from \$100 million in 1993 to more than \$1.3 billion in 2001 assistance that contributed to the creation of 336,000 jobs; and,
- overseeing the development of rural EZ/ECs. More than 180 rural communities completed the strategic planning process needed to be considered for Round 1 EZ/ECs. To ensure continuing benefits for those communities not awarded EZ/EC status, USDA designated them as “Champion Communities,” eligible to receive priority assistance when competing for any type of USDA housing, business or utility funds.

Commitment to Native Americans

The Department of Interior’s (DOI) Bureau of Indian Affairs (BIA) helps Native American Tribes, organizations, and individuals improve their economies, natural resources, and communities. BIA administers more than 56 million acres of Indian trust lands, and assists Indian landowners in developing agricultural, grazing, forestry, mineral, oil, and gas resources. In addition, BIA helps Indian businesses secure private capital through its loan guarantee program and partnerships with other Federal agencies. BIA also assists

Tribal governments in providing law enforcement, fire protection, employment training, housing assistance, and other community services. BIA provides support for 185 elementary and secondary schools, and 25 Tribal community colleges, and maintains more than 7,000 buildings, including school and dormitory facilities, 3,000 employee housing units, and more than 200 dams and irrigation facilities. Working with Federal, State, and local transportation agencies, BIA maintains and improves nearly 50,000 miles of road and 770 bridges that provide access to schools, employment, health, and other public services.

As part of President Clinton’s Native American Programs Initiative, BIA accomplishments since 1993 include:

- successfully managing a 12-percent increase in elementary and secondary student enrollment, improving academic performance and daily attendance, while lowering student dropout rates;
- investing \$304 million to replace 19 of BIA’s most dilapidated schools and dormitories, and more than \$467 million to rehabilitate or repair other elementary and secondary schools;
- guaranteeing \$369 million in private sector investments to create or expand Indian businesses and provide thousands of jobs on reservations;
- hiring more than 500 police officers, investigators, dispatchers, and detention personnel to improve public safety on Indian reservations. (With the Justice Department, BIA invested an additional \$174 million in Indian law enforcement personnel, training and equipment during 1999 to 2001, the first three years of a four-year modernization program.)
- investing \$144 million to rehabilitate 20 of the most hazardous dams on Indian reservations to ensure safe and efficient operations for residents and neighboring communities;
- improving the quality of life for more than 4,500 low-income families by repairing or replacing substandard homes on Indian reservations; and,

- working with DOI's Special Trustee for American Indians to install modern trust fund accounting and management systems to provide more accurate and timely information on payments to more than 262,000 Tribal and individual accounts.

DOI is often perceived as the lead agency on Indian policies and programs. However, more than a dozen Federal agencies participated in the President's Native American Programs Initiative, which raised Government-wide funding for Indian Programs from \$5.4 billion in 1993 to \$9.4 billion in 2001 (increases of \$1.1 billion, or 14 percent, over 2000, and 75 percent over 1993). The 2001 Budget requested an increase of \$1.2 billion over the 2000 enacted level, the largest single-year increase ever requested for Native American programs. Among the agencies with the largest increases between their 1993 and 2001 appropriations for Indian programs are: the Indian Health Service in the Department of Health and Human Services (an additional \$777 million, or 42 percent, over the 1993 level), BIA (\$496 million, or 30 percent), the Department of Education (nearly \$1.4 billion, or 302 percent), HUD (\$326 million, or 81 percent), and the Department of Transportation (\$66 million, or 33 percent).

There are four basic categories of programs and services provided by the Federal Government to Native American Tribes, as well as to individuals and families residing on, near, and in some cases off reservation: health care, education, economic and infrastructure development, and other basic services (see Table 10-2). Major accomplishments under the Native American Programs Initiative include:

Health Care: The Indian Health Service received a \$777 million increase since 1993 to address major health problems affecting Native Americans and Alaska Natives. This funding enabled IHS to improve the quality of, and access to, basic medical care. IHS targeted health problems that disproportionately affect Native Americans, such as diabetes and alcohol and substance abuse. As a result of IHS's monitoring, prevention education, and treatment activities, IHS diabetic patients' average blood sugar levels decreased by eight percent between 1994 and 1999.

Education: In 2001, the Department of Education received an increase of about \$35 million from the 1993 level for Indian Education Programs. These programs serve students attending BIA-administered schools or public schools with high concentrations of Native American students, and are designed to address the unique academic and cultural needs of Native American children. In the last two years, American Indian Teacher Corps and the American Indian Administrator Corps were established to increase the number of skilled professionals in classrooms with high concentrations of Native American students.

Since 1993, BIA was provided an increase of more than \$140 million for the operation of its elementary and secondary school system. In 2001, BIA received a record total of \$293 million, \$160 million over 2000, for the repair, rehabilitation, and maintenance of these schools. Also in 2001, the Department of Education received \$1.2 billion to rehabilitate elementary and secondary schools across the country, including a \$75 million set-aside for public schools with high concentrations of Native American students.

Four Federal agencies (DOI, Agriculture, Education, and HUD) contributed to 28 Tribal Colleges and Universities (TCU) to help improve and expand TCUs capacity to serve Native American students. Three new institutions were established between 1993 and 1997. In 1993, total operating funding for these institutions was \$24 million, with BIA as the sole provider of these funds. Appropriations for 2001 allowed the four agencies to provide a total of \$72 million, or 27 percent over 2000, for core operations, curriculum development, student recruitment, student services, professor training, research capacity-building, Tribal outreach, technical assistance, and facilities construction and renovation.

Economic and Infrastructure Development: Since 1993, the Economic Development Administration (EDA) in the Department of Commerce provided 660 grants to Indian Tribes and organizations totaling \$96.5 million. These funds were matched by more than \$41 million in local share and were expected to leverage about \$25 million in private sector investment. The combined investment led to

Table 10-2. Selected Native American Programs

(Budget authority, dollar amounts in millions)

	1993 Actual	2001 Enacted	Change: 1993-2001	Percent Change: 1993-2001
Health Care:				
Indian Health Service—BA only (HHS)	1,858	2,635	777	42%
<i>Indian Health Service Program level, including receipts</i>	<i>2,022</i>	<i>3,194</i>	<i>1,172</i>	<i>58%</i>
Education:				
BIA School Construction, Repair, Maintenance (BIA/DOI)	90	293	203	226%
School Construction For Public Schools Serving High Concentra- tions of Native Americans (Education)	4	75	71	1,775%
BIA School Operations (BIA/DOI)	343	489	146	43%
Indian Education Assistance for Public and BIA Schools Serving High Concentrations of Native Americans (Education)	81	116	35	43%
Support of Tribal Community Colleges (Multiagency)	24	72	48	200%
Economic Development:				
New Markets and Other Activities—Economic Development				
Administration (Commerce)	3	17	14	467%
Digital Opportunity and Other Activities (NSF)	*	10	10	NA
Small Business Development (SBA)	*	2	2	NA
Community Development Financial Institute (Treasury)	*	5	5	NA
Rural Community Advancement Program/RCAP (USDA)	*	24	24	NA
Commercial Code Implementation and Other Activities—Admin- istration on Native Americans (HHS)	35	46	11	31%
Infrastructure and Other Basic Services:				
Indian Reservation Roads and Bridges:				
Road/Bridge Construction (DOT)	200	263	63	32%
Road/Bridge Maintenance (BIA/DOI)	30	27	-3	-10%
Indian Housing:				
Housing and Urban Development	401	727	326	81%
Housing Improvement Program (BIA/DOI)	20	20		
Joint Indian Country Law Enforcement:				
Department of Justice	4	219	215	5,375%
BIA/DOI	93	153	60	65%
Subtotal, Law Enforcement	97	372	275	284%
Capacity Building and Other Basic Services:				
Environmental Protection Agency	38	196	158	416%
Improved Trust Services (BIA/DOI)	84	104	20	24%
Operation of Indian Programs (BIA/DOI)	1,364	1,742	378	28%
Total Government-wide Funding for Native American Programs	5,360	9,387	4,027	75%

* Less than \$500 thousand.

NA = Not applicable.

Note: Columns are not additive.

the preservation and/or creation of more than 5,600 jobs over the life of the projects. Of the EDA grant amounts, about \$21.6 million supported 63 ongoing Native American planning programs throughout the Nation. EDA anticipates awarding an additional \$17 million in grants in 2001.

USDA's loan and grant program activity to Native American communities and individuals increased from approximately \$10 million

in 1993 to approximately \$95 million in 1999. Funds were provided through the Rural Housing Service, Rural Utilities Service, and the Rural Business and Cooperative Service. In 2001, additional funds are available for economic development through the \$24 million appropriated to Tribes from USDA's Rural Community Advancement Program.

In 1999, the Smithsonian Institution dedicated the site for the National Museum of the American Indian (NMAI) on the National Mall, in Washington, DC. The Administration worked closely with the Congress to secure both the authorization and the funding for this proposal. Located at the foot of Capitol Hill, the Museum will provide excellent exposure for Native American artifacts and related museum activities. The Smithsonian Institution also operates the George Gustav Heye Center of the NMAI at the U.S. Custom House in New York City, and the Cultural Resources Center in Suitland, Maryland.

Since 1993, the Department of Transportation has constructed 2,100 miles of roads, maintained 22,000 miles, and replaced or rehabilitated 225 bridges under the Indian Reservation Roads Program (IRR). The Administration also worked to expand public transportation services for residents of Indian communities.

HUD worked with the Congress to pass the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA). The Act was an important affirmation of Tribal self-governance because it provided funding for housing directly to Indian Tribes and Alaska Native Villages. The legislation set up a housing block grant program that promotes both flexibility and accountability. The appropriation for the block grant increased by 24 percent between 1997 and 1998, the first year after NAHASDA's enactment. Annually, more than 500 Tribes received housing funds through the block grant.

Other Basic Services: The Departments of Justice and the Interior worked together to address rising crime rates on Indian reservations. The agencies contributed \$281 million in 1999, \$336 million in 2000, and \$372 million in 2001 toward Indian Country law enforcement. This funding was used to hire, train, and retain additional officers and dispatchers, provide additional equipment, replace high-mileage vehicles, construct detention and court facilities, and ensure improved law enforcement services and protection on or near Indian reservations.

In October 1994, the Environmental Protection Agency established the American Indian Environmental Office to oversee the development and implementation of the EPA's Indian policy and programs. Funding for Tribal environmental issues and programs increased five-fold from 1993 to 2001, from \$38 million to \$196 million. In 2001, Tribes received \$53 million in General Assistance Program Grants, supporting Tribal environmental program capacity building. In 1999, 270 Tribes were operating environmental programs, an increase from 90 Tribes in 1995.

The Department of the Interior implemented several efforts to improve Indian trust fund management systems and procedures to ensure more timely and accurate information and revenue payments to more than 350,000 Tribal and individual landowners.

Regional Development Programs

Federal efforts have been instrumental in shaping the economic development and prosperity of many U.S. regions through targeted assistance programs. Two areas in which longstanding efforts have been underway are the Tennessee Valley and the Appalachian Region. More recently, this Administration also has leveraged Federal resources to provide substantial financial and technical assistance to the District of Columbia and the Mississippi Delta Region, both of which have struggled with unique financial and economic problems.

Tennessee Valley: The Tennessee Valley Authority (TVA) contributes to the economic prosperity of the seven-State Tennessee Valley region by supplying it with economical electric power and through its management of a complex river system, an integrated effort consisting of navigation, flood control, water supply, and recreation programs. TVA pays for its river management program through proceeds from the agency's \$6.8 billion power program, user fees and sources other than appropriations. TVA's vision statement, *Generating Prosperity in the Valley*, established three clear goals for the agency: 1) supplying low-cost reliable power; 2) supporting a thriving river system; and, 3) stimulating economic growth.

Highlights of TVA's accomplishments since 1993 include:

- Supporting the creation of thousands of jobs and billions of dollars of investments in the Valley's economy over the past decade as a result of TVA's stable power rates. TVA's 10-year financial plan adopted in 1997 is designed to ensure that TVA's price of power remains stable and competitive.
- Establishing a Regional Resource Stewardship Council in 1999 a 20-member citizen's advisory body to provide input to improve TVA's management of the natural resources of the Tennessee Valley. TVA's Clean Water Initiative also has helped build partnerships with local residents, business and industry, and government agencies for watershed protection and improvement. TVA's Constructed Wetlands Initiative has helped to remove hazardous materials from water that must be returned to nearby streams and rivers.
- Expanding an existing manufacturing credit to industries and establishing an economic development loan fund to help launch new businesses, grow existing businesses, and stimulate economic growth throughout the region. TVA's \$300 million annual payments to State and local governments in lieu of taxes provide additional benefits to the region.

The energy programs of TVA are discussed in Chapter 5, "Energy."

Appalachian Region: The Appalachian Regional Commission (ARC) targets its resources to highly distressed areas, focusing on critical development issues on a regional scale, and making strategic investments that leverage other Federal, State, local, and private participation and resources. These investments have paid off in this region, which historically lags behind the rest of the Nation in economic performance.

Since 1993, ARC-supported activities throughout Appalachia have been responsible for:

- creating nearly 160,000 jobs;
- providing more than 185,000 households, and nearly 6,000 businesses, with access

to new or improved water, sewage, or waste management systems;

- providing educational and worker training programs to more than 415,000 students; and,
- placing nearly 1,200 physicians in health professional shortage areas.

District of Columbia: In response to the District of Columbia's financial crisis in the early 1990's, this Administration worked with the Congress to establish the District of Columbia Financial Responsibility and Management Assistance Authority (the Control Board) to assist the District in regaining financial stability. In 1997, the comprehensive plan proposed by President Clinton to revitalize the District and allow for home rule was passed by the Congress as the National Capital Revitalization and Self-Government Act (the Revitalization Act). Through the Revitalization Act and other financial and management reform acts, this Administration succeeded in:

- providing more than \$2 billion in savings to the District over the next five years;
- increasing the Federal match rate for Medicaid in the District from 50 to 70 percent;
- assuming responsibility for funding State justice functions, such as incarceration of adult felons, supervision of parolees, and financing of the D.C. Courts; and,
- relieving the District of \$5 billion of unfunded pension liability that D.C. had inherited from the Federal Government in the late 1970s.

In addition to securing passage of the Revitalization Act, this Administration:

- initiated further changes to the D.C. Medicaid formula, saving the District an additional \$9 million per year;
- supported the Taxpayer Relief Act, which provided \$1.2 billion in tax relief over five years to District residents and businesses; and,
- proposed the College Access Act, which provides \$17 million per year for D.C. high school students to attend out-of-State colleges at in-State tuition rates.

Table 10-3. Delta Regional Authority and Associated Agency Funding

(Budget authority, in millions of dollars)

Agency	2001 Enacted	Description
Delta Regional Authority	20	The newly created Delta Regional Authority will use funds for area development and technical assistance.
Department of Transportation	226	Funds will support a variety of highway infrastructure and transportation projects.
Department of Health and Human Services	7	Funds will support new Rural Health Outreach grants in the Delta, which will provide services like primary care, dental care, mental health services, and emergency care.
Department of Agriculture	6	Funds were provided for technical assistance grants and to finance intermediaries that re-lend to rural businesses and community development corporations.

Mississippi Delta Region: This Administration also has been committed to bringing economic prosperity to areas such as the Mississippi Delta Region, an area comprising some of the most distressed communities in the Nation. In the Delta region, poverty remains at 175 percent of the national average. Per capita income in the Delta's distressed counties is only 53 percent of the national average. In 2001, the Congress supported the President's request to create and fund the Delta Regional Authority (DRA) to promote economic development in the region. The DRA will provide a framework for coordinated Federal, State, and local government efforts to meet the development challenges in this region. The Congress also supported the President's request to boost funding in the region for transportation and other development-related activities (see Table 10-3 for the DRA and associated agency funding summary).

Disaster Relief and Insurance

The Federal Government provides financial help to cover a large share of the Nation's losses from natural disasters. Since 1993, the two major Federal disaster assistance programs—the Federal Emergency Management Agency's (FEMA) Disaster Relief Fund and the Small Business Administration's (SBA) Disaster Loan program have provided more than \$32 billion in emergency assistance. The Federal Government shares the costs with States for infrastructure rebuilding;

makes disaster loans on uninsured losses to individuals and businesses; and provides grants for emergency needs and housing assistance, unemployment assistance, and crisis counseling.

This Administration has shifted much of FEMA's focus to preventing disasters, an effort that has garnered nationwide support. Since 1993, FEMA has provided \$2.3 billion to States and communities following disasters for hazard mitigation projects, efforts to reduce the costs of future disasters. Recent Stafford Act changes, enacted in 2000, will ensure that a higher percentage of the assistance provided following future disasters will be for hazard mitigation activities. In addition to these post disaster response activities, FEMA has worked to establish "disaster resistant communities" across the country. Participating communities assess their risks from earthquakes, floods, hurricanes and other disasters, and adopt prioritized mitigation plans.

Communities participating in FEMA's flood insurance program, which provides the only source of affordable flood insurance to property owners, must mitigate future losses by adopting and enforcing floodplain management measures that protect lives and new construction from flooding. FEMA is also modernizing its inventory of flood plain maps and taking measures to mitigate properties experiencing repetitive flood damages.

The 1993 to 2001 accomplishments for FEMA include:

- Providing more than \$22 billion in disaster relief and grants to families and individuals, as well as State and local governments, to help communities rebuild following natural disasters. While dispensing this assistance, the agency has revamped its programs, delivering disaster assistance much more quickly and effectively than in the past.
- Leading successful responses for the more than 350 disasters declared by the President during this Administration in partnership with SBA and other Federal agencies, as well as State and local emergency response agencies. FEMA assistance and leadership paid off in helping communities recover from the 1993 Midwest floods, the 1994 Northridge earthquake, the 1995 Oklahoma City bombing and numerous hurricanes, tornadoes, and floods.
- Undertaking a nationwide initiative, Project Impact, to make communities aware of their disaster risks and more dis-

aster resistant. Since the program was begun in 1997, FEMA has signed up nearly 250 communities and 1,500 business partners.

- Overseeing tremendous growth in the number of policies issued by the National Flood Insurance Program, which has grown from 2.7 million to 4.2 million policyholders, with insurance coverage worth more than \$500 billion.

The 1993 to 2001 accomplishments for the SBA Disaster Loan Program include:

- Offering disaster loan assistance under 606 Presidential and SBA disaster declarations and 823 agriculture disaster declarations in the United States, its territories, and possessions. SBA has approved 386,000 disaster loans totaling more than \$10.6 billion for homes, businesses, and nonprofit institutions.
- Reducing the paperwork burden for loan applicants and simplifying the loan application process. SBA also has speeded loan processing by introducing automated loan documentation and approval systems.

11. EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

Table 11-1. Federal Resources in Support of Education, Training, Employment, and Social Services
(Dollar amounts in millions)

Function 500	1993 Actual	2001 Estimate	Percent Change: 1993–2001
Spending:			
Discretionary budget authority	38,192	61,121	60%
Mandatory outlays	13,548	10,737	–21%
Credit Activity:			
Direct loan disbursements	2,701	19,060	NA
Guaranteed loans	14,751	28,238	91%
Tax expenditures	21,855	59,450	172%

NA = Not applicable.

President Clinton has made increased support for elementary and secondary education and expanded access to postsecondary training the hallmark of his Administration. The President's education strategy is simple and straightforward—we must invest more in our schools and demand more in return. Over the past eight years, Federal spending for all levels of education and training has increased dramatically, tax-advantaged support for education has been expanded to reach more people, and access to student aid has been broadened while the cost of repaying loans has been reduced and made more flexible. Taken together, the improvements and expansions in the range of support for education and training is unprecedented, and has put postsecondary training within reach of almost anyone who wants it. In 2001, discretionary spending for education, training, and social services programs is \$61 billion, 60 percent above the level when the Clinton-Gore Administration took office, while direct loans have increased sevenfold, guaranteed loans have nearly doubled, and tax expenditures have more than doubled. (See Table 11–2.)

DEPARTMENT OF EDUCATION

Elementary and Secondary Education

Federal spending for elementary and secondary education addresses important national needs, such as equal opportunity and the use of challenging academic standards, to improve student achievement. Most low-performing children in high-poverty schools receive extra educational assistance through the Title I (Education for the Disadvantaged) program. Other programs provide related support for children with disabilities and limited English proficiency; fund teacher and administrator training; help finance and encourage State, district, and school reforms; help reduce class sizes; and, support research and technical assistance. The Administration's long-term goal has been to help all children, especially low-income and minority children, raise their levels of achievement so that they can meet challenging academic standards.

Through the Goals 2000: Educate America Act and Improving America's Schools Act (IASA), the Federal focus in K-12 education began to change in 1994 from supporting individual programs to emphasizing school-wide and school system reforms based on challenging academic standards for all

Table 11-2. Selected Education, Training, and Related Programs

(In millions of dollars)

	1993 Actual	2001 Enacted	Change: 1993–2001
TAX EXPENDITURES:			
Hope Scholarships Credit		4,480	4,480
Lifetime Learning Credit		2,570	2,570
Student Loan Interest Deduction		370	370
DISCRETIONARY BUDGET AUTHORITY:			
Department of Education:			
Title I—Education for the Disadvantaged/Accountability	6,709	9,533	2,824
Eisenhower Teacher Quality and Professional Development	275	567	292
Class Size Reduction		1,623	1,623
21st Century Community Learning Centers		846	846
School Renovation		1,200	1,200
Special Education	2,966	7,440	4,474
Education Technology	23	872	849
Bilingual and Immigrant Education	237	460	223
Charter Schools		190	190
Safe and Drug-Free Schools and Communities	582	644	62
Adult Education	305	561	256
Pell Grants	6,372	8,756	2,384
Pell Grant maximum award (in dollars)	2,300	3,750	1,450
Federal Work-Study	617	1,011	394
GEAR UP	NA	295	295
TRIO	388	730	342
Department of Labor:			
Youth Opportunity Grants		275	275
Responsible Reintegration for Young Offenders		55	55
Job Corps	966	1,400	434
Dislocated Worker Assistance	651	1,590	939
Department of Health and Human Services:			
Head Start	2,776	6,200	3,424
Administration on Aging	839	1,103	264
National Service:			
Corporation for National and Community Service	284	767	483
Cultural Agencies:			
Smithsonian Institution	344	455	111
National Endowment for the Arts	174	105	–69
National Endowment for the Humanities	177	120	–57
STUDENT LOANS (face value of loans issued):			
Direct Loans	NA	10,860	10,860
Guaranteed Loans	15,993	23,903	7,910
Consolidated Loans	1,487	14,238	12,751

NA = Not applicable.

students. These laws support State and local standards-based reform efforts, promote the use of technology in education to improve learning, and help upgrade the quality of teaching. This new approach to education helped free States and schools from unnecessary Federal process restrictions, providing greater flexibility while requiring more accountability for results. Early results show that the standards-based reform coupled with strong accountability is having a significant impact. For example, all but one State has

content standards in at least reading and math, compared to only 14 States before Goals 2000 and IASA. And, in States that have fully implemented these types of reforms, student achievement is on the rise, particularly among poor and minority children.

In addition to creating a new framework for reform through standards and accountability, this Administration launched several initiatives to ensure that all students have the opportunity to achieve to high standards.

The Class Size Reduction, 21st Century Community Learning Centers, Reading Excellence, and technology initiatives all invested Federal dollars in effective approaches to improving achievement through smaller, more individualized classes, extra learning time, early literacy efforts, and educational technology so that students master the skills and material they need to succeed in school. In addition, the Administration initiated a School Renovation program to help local school districts make urgently-needed repairs to their classrooms and ensure that students have a safe place to learn.

Title I Grants to Local Educational Agencies (Education for the Disadvantaged): Title I helps over 12 million disadvantaged students in 46,000 high-poverty schools master the basics and achieve to the same high standards as other students. As a result of revisions that this Administration proposed for the program in 1994, Title I now holds disadvantaged students to high academic standards, requires that testing and teaching reflect those standards, and holds schools accountable for improvements. These are precisely the reforms that a 1998 RAND study of North Carolina and Texas credits with producing rapid achievement gains in those States and reversing decades of low expectations for disadvantaged students. Funded at \$6.1 billion in 1993, Title I received a total of \$8.6 billion in 2001, a 41-percent increase. In 2000, the Administration initiated the Title I Accountability Fund to help districts identify failing schools, intervene with proven strategies, and report on their results. The Fund provides \$225 million in grants in 2001.

The reforms launched in 1994, coupled with the increased funding, have helped schools implement more effective programs. For example, 54 percent of all Title I elementary schools now have after-school programs to extend learning time rather than taking students out of the regular classroom for assistance. In 1994, only nine percent of Title I elementary schools had before- or after-school programs. The most recent data available suggest progress among students most likely to be served by the Administration's Title I reforms, including:

- Reading and math scores for nine-year olds in our highest poverty schools (75 percent or higher poverty) rose by nearly a grade level between 1992 and 1996.
- Between 1994 and 1998, the lowest-achieving fourth-graders showed substantial gains in reading, largely accounting for the rise in the average reading score among all fourth-graders nationally.

Teacher Quality and Professional Development: Funding for the Eisenhower Professional Development State Grants, the largest Federal program dedicated to providing teacher training, has nearly doubled from \$246 million when President Clinton took office to \$485 million in 2001. This Administration has paired this investment in teacher quality with its leadership in promoting high-quality professional development that prepares teachers to meet the high academic standards adopted by nearly all States and districts. In addition, this Administration has supported innovative teacher recruitment and recognition strategies to improve public school education. In 1994, it created the Troops to Teachers program, which has proved successful in helping skilled and experienced military service members become teachers in high-poverty schools. This Administration also has strongly supported the National Board for Professional Teaching Standards, thus helping to raise the number of teachers meeting standards of national excellence from 282 in 1995 to 9,498 in 2000.

In addition, this Administration has taken the lead on extending teacher preparation to pre-school professionals by securing funding in 2001 for the Early Childhood Educator Professional Development program. The 2001 enacted level also provides new funding for recruitment efforts to improve teacher quality by attracting recent college graduates with outstanding academic records to become fully qualified teachers through nontraditional routes.

Class Size Reduction: In 1999, President Clinton launched an initiative to reduce class sizes in the early grades to an average of 18 students by 2005. First funded at \$1.2 billion, this initiative will help communities recruit, hire, and train 100,000 qualified teachers to provide more individualized attention in the grades when students are building their

foundation for learning. Already, an estimated 29,000 teachers have been hired, and at the 2001 level of \$1.6 billion, approximately 8,000 more teachers are being added. Research shows that students in smaller classes outperform their peers in larger classes, and that this is particularly true for minorities and students in inner-city schools. Initial reports for the Federal program are positive, including:

- In the grades and schools in which Class Size Reduction teachers have been hired, districts report that class sizes have dropped from an average of 23 to 18.
- Hiring 29,000 teachers has reduced class sizes for some 61,000 additional teachers and a total of 1.7 million students in 23,000 schools.
- Anecdotal reports from districts show improvements in student achievement. For example, in Washington, D.C., participating schools have increased the percentage of students reading above the basic level.

21st Century Community Learning Centers/After School Programs: Initiated as a \$1 million demonstration program in 1995, 21st Century Community Learning Centers was expanded to be an \$846 million initiative by this Administration in 2001 to help students have a safe, supervised place to continue learning before and after school and during the summer. The program provides grants to public schools, which generally partner with community-based organizations, to provide tutoring, homework assistance, enrichment opportunities, and recreational activities for children and adults in urban and rural communities. Many school districts make the program part of a comprehensive approach to turning around troubled schools by providing children the extra help they need to meet challenging academic standards. Extended learning time has not only been shown to increase achievement in reading and math, but to decrease youth violence and drug use. The 2001 level will support about 6,700 centers serving approximately 1.3 million children.

Reading Excellence: A student's most basic skill to master is reading. Although reading problems can be particularly severe for disadvantaged students, students with reading

difficulties represent a cross-section of American children. On the 1994 National Assessment of Educational Progress, 40 percent of fourth-graders failed to reach the "basic" reading level and only 30 percent attained the "proficient" level. In 1997, this Administration launched the America Reads Challenge to provide extra help to meet the goal that every child will read well and independently by the end of the third grade, and obtained enactment of new legislation—the Reading Excellence Act (REA)—that began funding State and local programs on July 1, 1999.

REA supports competitive grants to high-poverty schools to improve the teaching and learning of reading. Seventeen States received three-year REA grants with 1999 funds, and 10 more received grants from 2000 funds. With the \$286 million available for 2001, all the remaining States and territories are expected to receive grants, bringing the number of children served to 1.1 million.

In response to the America Reads Challenge, more than 1,400 colleges have committed nearly 27,000 Federal Work-Study students to tutor children in reading. In addition, each college or university that participates in the Federal Work-Study program must include at least one tutoring or family literacy project as part of its community service activities, giving priority to the employment of work-study students as reading tutors in schools participating in reading reform efforts.

School Renovation: About one-quarter of the Nation's school districts report that at least one building is in less than adequate condition, and one-fifth rate the condition of their life-safety features (e.g., fire alarms and sprinkler systems) as less than adequate. Based on President Clinton's proposal to provide funds to help local school districts make critical facilities repairs, the 2001 appropriation included authorization and funding for a new \$1.2 billion program including funds for emergency repairs to schools. Projects may include fire and safety code repairs and repairs to roofs, plumbing, and electrical systems. The program includes a \$25 million demonstration that will support innovative financing methods to help charter schools meet their facilities needs. Federal support for school construction

is also provided through Qualified Zone Academy Bonds, which are discussed in the Tax Incentives paragraph of this section.

Special Education: Under the Individuals with Disabilities Education Act (IDEA), the Education Department works with States to ensure that more than six million children with disabilities receive a “free appropriate public education.” During this Administration, Federal support for special education programs authorized under the IDEA increased by more than 150 percent, from nearly \$3.0 billion in 1993 to \$7.4 billion in 2001, and the Federal share of special education costs increased from eight percent to 15 percent.

In 1997, the IDEA reauthorization focused attention not only on guaranteeing access to public schools, but also on ensuring that students with disabilities receive a high-quality education based on the same challenging standards as their nondisabled peers. As of July 1, 1998, all States were required to have performance goals and strategies in place for students with disabilities aged three to 21, and to report their progress toward meeting those goals on a biennial basis. By July 1, 2000, all States were required to include special education children in State and district-wide regular assessments or provide alternate assessments to measure educational performance. Based on the latest data available, during this Administration:

- The number and percentage of students with disabilities who leave high school with a regular diploma has increased from 114,000, or 52 percent, of all students with disabilities in 1994, the earliest year comparable data are available, to 149,000, or 57 percent, in 1999.
- The percentage of students with disabilities who dropped out of school decreased from 35 percent in 1994 to 29 percent in 1999.

Education Technology: The Administration’s education technology programs serve to make modern computers and technologies accessible to all students, connect classrooms to the Internet, make high-quality educational software an integral part of the curriculum, and enable teachers to integrate technology effectively into their instruction. This Adminis-

tration’s investment in educational technology has grown from \$23 million in 1993 to \$872 million in 2001.

The Administration was instrumental in creating the education rate (E-rate) in the Telecommunications Act of 1996 to provide discounts for schools and libraries to purchase high-speed Internet access, internal wiring, and telecommunications services. Since the beginning of the program in 1998, E-rate commitments of \$5.6 billion have helped dramatically increase the number of schools and individual classrooms connected to the Internet. In 1994, only 35 percent of all public schools and three percent of classrooms had a connection to the Internet, but by 1999, 95 percent of all public schools and 63 percent of public school classrooms were connected to the Internet.

Not only did nearly all schools connect to the Internet during this Administration, but teachers were better prepared to take advantage of new technological tools in the classroom. In 1994, 51 percent of teachers had recently participated in professional development on the use of technology, as compared to 78 percent of teachers in 1998. Programs created during this Administration, like the Technology Literacy Challenge Fund and Preparing Tomorrow’s Teachers to Use Technology, have expanded technology training opportunities for teachers to better prepare students for the new opportunities in the 21st Century.

Hispanic Education Action Plan: To address the disproportionately low educational achievement and high dropout rates of Latino and limited English proficient (LEP) students, the Administration created the Hispanic Education Action Plan (HEAP). Since its inception in 1998, the HEAP initiative has aimed to increase funding levels for select programs that help Latino and LEP students improve their levels of academic achievement, high school graduation, postsecondary participation, and opportunities for lifelong learning. HEAP programs include Title I, Adult Education, Bilingual Education, and TRIO. The 2001 appropriation includes \$1 billion in increases over the 2000 level for all HEAP programs. Overall funding for programs included in this initiative

has increased by 25 percent since 1998. (See Table 11–3.)

Bilingual Education: The population of LEP students has grown dramatically over the last two decades. Between school years 1992–1993 and 1996–1997, the LEP population in 10 States (Alabama, Alaska, Florida, Idaho, Nebraska, Nevada, North Carolina, Oregon, South Carolina, and Tennessee) grew by more than 50 percent. The Bilingual Education program provides funds to school districts to teach English to LEP students and help them meet the same challenging State standards required of all other students. The program also funds professional development programs to address the growing need for certified bilingual education and English as a second language (ESL) instructors. The Administration proposed and won over \$100 million in increases for Bilingual Education between 1993 and 2001, a 51-percent increase. The funding level of \$296 million in 2001 will produce nearly 18,000 teachers who specialize in teaching LEP children.

Public School Choice: Public School Choice programs offer enhanced parent and student choice within the public school system and provide participating schools with the freedom to pursue innovative education strategies in return for stronger academic accountability. This Administration has made public school choice a priority through support of the Magnet

Schools program and the Charter Schools program. When President Clinton took office, only a handful of Charter Schools existed. This Administration launched the Federal Charter Schools Program in 1994; it was first funded in 1995 at \$6 million. Due in part to support from the Charter School program, there are currently over 2,000 charter schools in operation nationwide, and 36 States have charter school legislation. At the current rate of growth, the President's goal of having 3,000 charter schools in operation by 2002 will be met. In 2001, the Charter School program is receiving \$190 million, a \$45 million increase from the previous year. The Magnet School program is receiving \$110 million in 2001.

Safe and Drug Free Schools and Communities: Since 1993, this program has provided almost \$5 billion to help 97 percent of all school districts implement drug and violence prevention efforts. In 2001, the program is receiving \$644 million, including \$117 million for the Safe Schools/Healthy Students initiative, \$50 million for the Middle School Coordinator Initiative, and \$10 million for Project SERV (School Emergency Response to Violence). The Coordinator Initiative will help 1,300 middle schools hire a director of violence and drug prevention programs in order to link school programs with community resources. Project SERV will provide emergency assistance to schools that suffer violent acts or other traumatic crises.

Table 11–3. Hispanic Education Action Plan (HEAP)

(Budget authority, in millions of dollars)

Program	Enacted		Change: 1998–2001
	1998	2001	
State Agency Migrant Program	305	380	75
High School Equivalency Program	8	20	12
College Assistance Migrant Program	2	10	8
Bilingual Education	199	296	97
Adult Education	361	561	200
Hispanic-serving Institutions	12	69	57
Federal TRIO Programs	530	730	200
Migrant Youth Job Training Program (Labor)	NA	5	5
Migrant and Seasonal Youth Opportunity (Labor)	NA	12	12
GEAR UP	NA	295	295
Title I, Grants to local educational agencies	7,375	8,602	1,226
Total, HEAP	8,792	10,979	2,187

NA = Not applicable.

Adult Education: For many disadvantaged adults, Adult Education programs provide the only opportunity to gain literacy skills and obtain the knowledge and skills necessary to attain employment and self-sufficiency and to complete their secondary education. To meet the rapidly growing need for these services across the Nation, the Administration has proposed and won several funding increases for Adult Education since 1993. This Administration also has created the English Literacy/Civics initiative (EL/Civics) which assists recent immigrants and other LEP adults in learning English while obtaining skills to navigate effectively key institutions of American life. In 2001, the Adult Education program is funded at \$561 million, an increase of 84 percent since 1993. The 2001 level includes \$70 million for the EL/Civics initiative, up from only \$7 million in 1999.

Postsecondary Education

The economic power of higher education is growing steadily as technology and knowledge increasingly drive our Nation's economy. Whereas young men and women in 1980 who completed at least a bachelor's degree earned 19 percent and 52 percent more, respectively, than their peers with no more than a high school diploma, by 1998 the earnings differential had grown to 56 percent among men and 100 percent among women. Jobs that require a college degree are growing twice as fast as others.

The most recent data reveal that under this Administration, more students than ever before are attending college and earning degrees. In 1993, 62 percent of all high school graduates went on to college. By 1998, this figure had risen to 66 percent. Only 44 percent of low-income high school graduates enrolled in higher education immediately in 1993, compared to 51 percent in 1997. And black high school graduates, who attended college at a rate of 51 percent in 1993, had increased that rate to 59 percent by 1997. Over 32 percent of 25- to 29-year-olds had earned at least a bachelor's degree in 1999, up from 27 percent in 1993.

This Administration's initiatives included a new early intervention program for disadvantaged students, lower fees and interest

rates on student loans, and the largest investment in student aid since the GI Bill, including new tax credits to make college more affordable. Since 1993, the new college tax credits and the greater availability of Federal assistance for low-income families have opened the door to higher education for millions of students who otherwise could not afford it. The Federal Government is providing over \$60 billion in student aid in 2001, including the Hope Scholarship and Lifetime Learning tax credits, compared to only about \$25 billion in 1993.

Hope Scholarships and Lifetime Learning Tax Credits: These tax benefits to help families pay for postsecondary education were proposed by President Clinton in 1996 and enacted in 1997. The Hope Scholarship helps make the first two years of college universally available by providing a tax credit of up to \$1,500 for tuition and fees for the first two years of college (indexed for inflation after 2001). The Lifetime Learning tax credit provides a 20-percent tax credit on the first \$5,000 of tuition and fees for students beyond the first two years of college, or taking classes part-time (in 2003, this increases to \$10,000 of tuition and fees). In 1999, these tax credits were claimed by an estimated 10 million families struggling to pay for college. For the 2000 tax year, 5.6 million families are eligible for about \$5 billion in Hope tax credits, and 7.2 million families are eligible for almost \$2.4 billion in Lifetime Learning tax credits. Both credits are phased out for joint filers between \$80,000 and \$100,000 of modified adjusted gross income, and for single filers between \$40,000 and \$50,000 (also indexed for inflation after 2001).

Student Loans: In 2000, the Federal student loan programs provided more than \$41 billion to nearly 5.8 million borrowers to help finance the cost of higher education. Recognizing that the cost of borrowing is a large burden for many students, this Administration has fought to reduce the cost of loans through lower fees and interest rates, as well as increased competition. Additionally, the Administration has worked diligently to improve management of the programs. Since 1993, the Administration has:

- reduced federally-required loan origination fees from as high as seven percent to three percent of loan principal—saving students \$4 billion;
- changed the interest rate formula for student loans from a fixed to a variable interest rate and subsequently reduced the new rate by nearly one percent—saving students \$5 billion;
- enhanced competition through the creation of the Federal Direct Student Loan Program which provided a catalyst to improving loan benefits and services for students—saving taxpayers \$4 billion;
- increased loan repayment options through the creation of the Income Contingent Repayment plan, which allows students to repay their loans as a share of their income;
- reduced from 22.4 percent to 6.9 percent the cohort default rate (defaults within their first two years of repayment on a loan)—saving taxpayers \$7 billion; and,
- quadrupled collections on defaulted loans from \$1 billion in 1993 to nearly \$4 billion in 2001 through better portfolio management—saving taxpayers \$7 billion over the past eight years.

As a result of these reforms, students have saved more than \$9 billion in loan costs while taxpayers have saved \$18 billion through better management of the programs.

Pell Grants: Pell Grants provide need-based scholarships for about four million college students each year. When President Clinton took office in 1993, the Pell Grant maximum award was \$2,300—the same as it was when President Bush took office in 1989. During this Administration, the maximum award has increased 63 percent to \$3,750 in 2001. Total funding for Pell Grants increased 35 percent, from \$6.5 billion in 1993 to \$8.8 billion in 2001.

Work-Study: The Work-Study program helps needy undergraduate and graduate students finance postsecondary education through part-time employment. Work-Study jobs both expand opportunity and teach responsibility and employment skills. In 1996, President Clinton set a goal of supporting one million

Work-Study students each year by 2000, over 250,000 more students than in 1993. This goal was achieved in 2000 and maintained in 2001. Federal Work-Study funds have increased 64 percent since 1993, from \$617 million to \$1.0 billion.

President Clinton also created the America Reads and America Counts initiatives within the Work-Study program, enabling college students to earn aid by serving as reading and math tutors in their communities. In 1998–1999, nearly 27,000 Work-Study students served as reading tutors.

GEAR UP: In his 1998 State of the Union address, President Clinton proposed a new initiative to help make a difference for students in high-poverty schools. GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs) is based on the President's proposal to provide early, sustained intervention and extra financial assistance to help low-income middle- and high-school children prepare for college. GEAR UP supports partnerships of schools, colleges, and community organizations to help raise expectations for whole grade levels of students in high-poverty schools. In 2001, funding for GEAR UP increases to \$295 million, providing services to 1.2 million disadvantaged students.

TRIO: This Administration also has expanded the TRIO programs to promote college success for disadvantaged young people. TRIO programs help low-income, first-generation college, and disabled individuals achieve academic success beginning in middle school, throughout college, and into graduate school. Since 1993, funding for the programs has nearly doubled, from \$388 million to \$730 million. Up to 765,000 students will receive services in 2001.

Within the TRIO programs, President Clinton proposed College Completion Challenge Grants (CCCG) to help reduce the college dropout rate. Although college enrollment rates have risen, 37 percent of students who go on to postsecondary school drop out before they get a certificate or degree. The problem is especially acute for minorities: 29 percent of African Americans and 31 percent of Hispanics drop out of college after less than one year, compared to 18 percent of whites. CCCG is designed to

address this problem with a comprehensive approach including pre-freshmen summer programs, support services, and increased grant aid to students. In 2001, key components of the CCCG proposal were enacted that will help improve the chances of success for nearly 18,000 low-income college students.

Student Aid Delivery System Modernization: The Education Department manages the delivery of student aid benefits to nearly nine million students in approximately 5,300 post-secondary schools, and oversees the direct and guaranteed loan systems affecting 37 million individuals, 4,100 lenders, and 36 guarantee agencies. This Administration has made modernization of student financial aid management one of its highest priorities. In the Higher Education Amendments of 1998, the Administration succeeded in converting the Office of Student Financial Assistance (OSFA) into the Government's first-ever Performance-Based Organization (PBO). This new organization has unprecedented flexibility in procurement, operations and management of Federal student financial assistance programs. OSFA's mission includes improving customer service at lower cost through better contracting practices and use of new information technology. In its first 18 months of operation, the new OSFA has made significant progress in: (i) modernizing its 13 legacy, stove-pipe computer systems into an integrated, customer-oriented system; (ii) implementing web-based technologies that allow students to conduct student aid functions online; and, (iii) reducing projected operating costs by reforming contracting to share risks and rewards with private sector firms.

Student Aid Income Verification: In 2000, as part of this Administration's Priority Management Objective to ensure that the right person gets the right benefit, the Departments of Education and Treasury performed test matches of income data reported by students on their aid applications against IRS data. The agencies began work on a pilot program that will help the Department of Education prevent improper or erroneous student aid payments before they are made and maximize the aid available to needy students.

Vocational Rehabilitation Services: The Vocational Rehabilitation (VR) program helps

individuals with disabilities prepare for and obtain gainful employment to the extent of their capabilities. Since 1993, funding for the VR program has increased 28 percent, from \$1.9 billion to \$2.4 billion. The 1998 reauthorization of the VR program required all States to develop challenging, State-specific goals based on a comprehensive assessment of the vocational rehabilitation needs of individuals with disabilities, and to describe the strategies that will be used to address those needs. In 2000, States first reported their progress toward meeting these goals. To further expand employment opportunities for individuals with disabilities, State VR agencies are also required One-Stop partners under the Workforce Investment Act of 1998, and participate as Employment Networks under the Ticket to Work and Workforce Incentives Improvement Act of 1999.

- The number of individuals with disabilities who secured employment under the VR program increased from approximately 194,000 in 1993 to 232,000 in 1999. The percentage of these individuals who obtained competitive employment increased from 82 percent in 1993 to 84 percent in 1999.
- The performance of VR agencies improved even while they served more individuals with significant disabilities. Of those individuals achieving an employment outcome through the VR program, in 1999 nearly 85 percent had a significant disability, up from 73 percent in 1993.

Education Tax Incentives

The President proposed the Hope Scholarship and Lifetime Learning tax credits to make college more affordable for lower- and middle-class families in 1996; the Taxpayer Relief Act of 1997 (TRA) enacted these credits. The TRA also created education IRAs for higher education savings and allowed student loan interest to be deductible; both benefits have income limits. The TRA provided a tax credit to holders of Qualified Zone Academy Bonds (QZABs). Proceeds of QZABs may be used for renovation of and purchase of equipment for schools that are high-poverty or in enterprise communities or empowerment zones. During this Administration, a tax

provision allowing employees to exclude employer-provided educational assistance for undergraduate training from their gross income has been extended several times.

DEPARTMENT OF LABOR

Elementary, secondary, and postsecondary investments enable Americans to acquire the skills to get good jobs in an increasingly competitive global economy. In addition, most workers acquire skills on the job or through employer-provided assistance to enhance worker skills and productivity. However, some workers need additional assistance. In addition to Pell Grants, student loans, and tax credits, the Federal Government will spend some \$7.1 billion in 2001 on Department of Labor (DOL) programs that finance job training and related services, a \$1.2 billion, or 21 percent, increase from the 1993 level. In addition to these increases, the Administration has made a number of systems changes that have moved the employment and training system from a fragmented group of categorical programs to a consolidated and integrated system with a focus on the needs of its customers—workers looking for new and better jobs, and employers looking for skilled workers.

The Workforce Investment Act (WIA) of 1998: The culmination of many years of work by this Administration and the Congress, the WIA took full effect on July 1, 2000, as the Job Training Partnership Act was repealed and all States began to fully implement the WIA requirements. The Act calls for a streamlined, customer-focused job training system overseen by local business-led Workforce Investment Boards that provide a single point of entry to services in each community. The WIA reflects the basic principles set out by President Clinton for this transformation, including: streamlining services through One-Stop Career Centers; empowering individuals with the information and resources they need to choose the appropriate training; providing universal access to a core set of employment services such as job search assistance; increasing accountability, including core performance indicators; ensuring a strong role for the private sector and the local boards that develop and oversee programs; facilitating State and

local flexibility; and, improving the quality of youth job training services.

Youth Activities: The WIA consolidated the funding streams for DOL's summer jobs and year-round youth training programs into one formula grant that provides a variety of services to economically disadvantaged youth. These WIA reforms were intended to provide more intensive and comprehensive services to youth and achieve better programmatic outcomes in terms of future education and employment. By consolidating the funding streams of the two youth programs, the WIA provides local governments the flexibility to design the education and training program that best meets the needs of youth in their areas. Funding for the consolidated program is \$1.1 billion in 2001, serving roughly 660,000 participants. This program is part of the Department's efforts to reach the nearly 11 million young people between 16 and 24 who are not in school.

Youth Opportunity Grants: The Youth Opportunities initiative, first piloted in 1993, addresses the special problems of out-of-school youth, especially in inner-cities and other areas where unemployment and poverty rates are high. This model uses a saturation service-delivery approach, concentrating resources in high-poverty communities in order to bring about fundamental change in neighborhoods served. It combines Federal, State and local resources with private-sector involvement to create a comprehensive approach to job training, education, and career counseling. The 2001 appropriation provides \$275 million for the third year of five-year competitive grants to 36 communities and expands to an additional two to three communities—serving 5,000 more disadvantaged youth than the 58,000 served in 2000.

Responsible Reintegration for Young Offenders (RRYO): Building on lessons learned through the Youth Offender demonstration, the 2001 appropriation provides \$55 million to establish partnerships between the criminal justice system and local One-Stop delivery systems created under the WIA. Young offenders up to age 35 will have access to comprehensive services—including education, training, drug treatment, and support services—that can help them successfully reenter the community and

the economic mainstream. This initiative is being administered through collaboration among the Departments of Justice, Labor, and Health and Human Services. The three Departments are working with State and local agencies and communities to develop programs that address every element of the re-entry challenge. In 2001, the RRYO program will support services for almost 14,000 young ex-offenders.

Job Corps: Founded in 1964, Job Corps serves severely disadvantaged youth ages 16 through 24 by providing skill training, education, and support services. It is primarily a residential program with approximately 88 percent of students living at Job Corps centers. This successful program has expanded during this Administration. In 2001 with funding of \$1.4 billion, Job Corps will have 121 centers across the country serving nearly 74,000 students—16 percent more than in 1993.

Dislocated Worker Employment and Training Activities: The 2001 funding of almost \$1.6 billion for this program will provide training and employment services to about 883,000 displaced workers. The amount more than doubles the 1993 funding level of \$651 million, and nearly triples the participant level to 883,400. In 2000, 80 percent of participants are expected to be employed six months after leaving the program in jobs that replace, on average, 98 percent of their pre-dislocation earnings.

One-Stop Career Centers/Employment Service: The Employment Service provides a free labor exchange for all job seekers and employers and operates in the One-Stop delivery system established by the WIA. Funds for 2001, a total of roughly \$1 billion, support a range of information and services, including self-service access to job and labor market information, either through the Internet or in local offices, as well as staff-assisted services for those needing more help. This level is a 12-percent increase over the 1993 funding of \$895 million for the Employment Service.

In 1994, President Clinton initiated a program of planning and implementation grants for States to establish networks of One-Stop Career Centers in their States. These Centers were designed to streamline access to multiple employment and training pro-

grams, with a total of \$977 million provided for this purpose since 1994. As a result of the Administration's efforts, the WIA institutionalized One-Stops as the primary mode of training and employment service delivery.

During this Administration, the growth of the Internet transformed the way labor exchange services are delivered. Job-seekers and employers could be linked electronically without the need to visit the local Employment Service office. Information on local jobs could expand to cover regional and national labor markets. In this new environment, workers who want to learn about job openings can use DOL's popular America's Job Bank (AJB) web site, which lists an average of 1.5 million job vacancies each day and has over 10 million job searches each month. Employers can search through resumes posted on the AJB web site, with over 500,000 listed daily.

Work Incentive Grants: In 2000, President Clinton initiated a \$20 million program of competitive grants to partnerships or consortia in each State to provide services and information for individuals with disabilities who want to return to work. These partnerships work with the One-Stop system to augment its capabilities to provide timely and accurate information that people with disabilities need to get jobs and learn about the benefits available to them when they return to work.

Welfare-to-Work Grants: Moving people from welfare to work has been the primary goal of Federal welfare policy. In addition to the \$16.5 billion per year provided through the Temporary Assistance for Needy Families Program, President Clinton obtained a total of \$3 billion to help achieve this goal through Welfare-to-Work grants over 1998 and 1999. These competitive and formula grants provide welfare recipients with the job placement services, transitional employment, and job retention and support services they need to achieve economic self-sufficiency. Working closely with the Congress, the Administration later secured critically needed changes to the program's eligibility and reporting requirements. These streamlined criteria allow the Welfare-to-Work grants program, within existing resources, to better serve the eligible population and report program results with minimal burden. In light of this, in 2001, States' authority to obligate

these funds was extended for two years. This program also is discussed in Chapter 14, "Income Security."

Skills Shortage Grants: A new program of high-tech skills shortage grants, funded by employer-paid visa application fees for foreign workers, was initiated in 1999. To date, this program has provided about \$96 million to help workers keep pace with the rapidly changing economy and to provide employers with the skilled workers they need. In 2001, an estimated \$167 million is available for these purposes.

Workplace Protections: DOL regulates compliance with various laws that protect individuals in the workplace a minimum wage for virtually all workers, prevailing wages and equal employment opportunity for workers on Government contracts, overtime pay, restrictions on child labor, and time off for family illness or childbirth. (For discussion of workplace safety programs, see Chapter 12, "Health.") Given dramatic changes in the type of jobs in and composition of the U.S. work force in recent years, DOL has tailored its compliance efforts to continue ensuring effective worker protection.

For example, DOL has focused many of its compliance activities on low-wage industries like garment, agriculture, and health care industries that have the lowest compliance rate and in which the most egregious violations occur. In 2001, DOL's goal is to increase compliance by five percent among employers who were previous violators and the subject of repeat investigations in these targeted industries. DOL also has worked to increase industry's compliance with labor protections through voluntary compliance initiatives and outreach to new and small businesses.

Worker Benefits: The Administration has led successful efforts to provide better benefits to workers. Among the President's first acts in 1993 was to propose, and then sign, the Family and Medical Leave Act. The Act allows workers to take up to 12 weeks of job-protected, unpaid leave to care for a newborn or newly adopted child, attend to their own serious health needs, or care for a seriously ill parent, child, or spouse. These protections make it less likely that employees will have

to choose between work and family. To date, over 35 million workers have taken advantage of this benefit.

In 1996, President Clinton successfully sought a \$1 increase in the minimum wage over two years bringing it to \$5.15 an hour providing an additional \$1,800 a year to a full-time, full-year minimum wage earner. This increase helped approximately 10 million workers. The Administration also made equal pay a prominent issue. Intended in part to address the gap in pay between men and women, in 2001 DOL is planning to dedicate \$17 million to equal pay efforts such as training women in nontraditional jobs and providing employers with assistance to assess and improve their pay policies.

In 2000, the Congress failed to complete work on a \$1 increase in the minimum wage, which remains essential and which will, over time, still be inadequate for the minimum wage to keep pace with our Nation's prosperity.

International Child Labor/Bureau of International Labor Affairs (ILAB): As a result of the Administration's efforts, the United States now is a world leader in ensuring that globalization helps raise labor conditions around the world. The 2001 appropriation provides \$148 million for this purpose, nineteen times greater than in 1993. A focal point of the Administration's priorities has been the elimination of abusive and exploitative child labor. In 2001, President Clinton successfully secured a 50-percent increase, for a five-year total of \$195 million, to support the International Labor Organization's (ILO) International Program for the Elimination of Child Labor (IPEC). Over the last five years, these projects have provided educational opportunities to some 120,000 children in several developing countries and have provided their families with viable economic alternatives to having their children work. The 2001 appropriation includes \$37 million for a new bilateral assistance child labor initiative aimed at improving and expanding access to basic education as part of a comprehensive strategy to eliminate child labor. Lastly, the Administration secured \$45 million to help developing countries implement core labor standard initiatives and strengthen social

safety net programs for workers in developing economies.

Labor Tax Incentives

The Targeted Jobs Tax Credit, which provided employers with a tax credit on wages paid to disadvantaged workers, was extended retroactively in 1993 to cover workers hired from 1992 to 1994. This credit was replaced by the more tightly targeted Work Opportunity Tax Credit in 1996. In 1997, the Taxpayer Relief Act created the Welfare-to-Work Tax Credit to encourage employers to hire recipients of long-term family assistance. This tax credit also is discussed in Chapter 14, "Income Security."

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Head Start: Head Start gives low-income children a comprehensive approach to child development, stressing language and cognitive development, health, nutrition, and social competency. Between 1993 and 2001, funding for Head Start increased 123 percent to \$6.2 billion. Enrollment, which stood at 714,000 children in 1993, is expected to reach 936,000 children in 2001, well on the way to achieving the President's goal of serving one million children annually by 2002. The 1994 reauthorization of Head Start established Early Head Start, a new program targeted at pregnant women and low-income families with children under age three. Within the 936,000 children expected to be served in 2001, more than 50,000 infants and toddlers will be enrolled in Early Head Start.

Foster Care and Adoption Assistance: The Administration for Children and Families administers a number of programs that focus on preventing maltreatment of children, protecting children from abuse and neglect, and finding permanent placements for children who cannot safely return to their homes. The First Lady has played a prominent role in promoting the adoption of children living in foster care and in working for passage of the Adoption and Safe Families Act of 1997 (ASFA), landmark legislation which reformed our Nation's child welfare system by putting considerations of children's health and safety first. The

Adoption Incentives program, enacted into law as part of ASFA in 1997, was one of the innovative recommendations advanced in the President's Adoption 2002 Initiative to focus attention on the needs of children awaiting permanent adoptive families. The program has resulted in unprecedented increases in the number of children adopted. In 1999, 46,000 foster care children were adopted, up from 23,000 in 1994, the first year for which reliable figures are available, and well within reach of meeting the President's goal of 56,000 adoptions by 2002, double the number in 1996. This is the first significant increase in adoption since the national foster care program was established nearly 20 years ago.

The Administration also worked with the Congress to enact the Foster Care Independence Act. Nearly 20,000 young people leave foster care each year when they reach age 18 without an adoptive family or other guardian. The Foster Care Independence Act doubled the amount of funding available to \$140 million annually to ensure that those young people get the tools they need to make the most of their lives by providing them better educational opportunities, access to health care, training, housing assistance, counseling, and other services.

Aging Services Programs: The Administration on Aging (AoA) administers information and assistance, home and community-based support services for older people, and programs that protect the rights of vulnerable, at-risk older people. Since 1993, funding for AoA programs has increased 32 percent, from \$839 million in 1993 to \$1.1 billion in 2001. As a result, AoA and its partners have been able to expand delivery of such important services as home-delivered meals from 103 million meals served in 1993 to an anticipated 176 million meals in 2001, a 71-percent increase. In addition, in 2000, the President signed into law legislation to reauthorize the Older Americans Act, which included the Administration's proposal to support families caring for loved ones who are ill or disabled. In 2001, \$125 million is available for this new long-term care program.

Health and Human Services Tax Incentives

The Taxpayer Relief Act of 1997 made taxpayers eligible for a child tax credit for each dependent child under the age of 17 to help make it easier for parents to participate in the labor force. The credit amount per child was \$400 in 1998 and rose to \$500 in 1999 and subsequent years. The credit is gradually phased out for taxpayers with adjusted gross income in excess of the following thresholds: \$110,000 for married taxpayers filing a joint return, \$75,000 for a single tax-payer or head of household, and \$55,000 for married taxpayers filing a separate return. This tax credit will provide over \$19 billion in benefits in 2001.

The Small Business Job Protection Act of 1996 included two tax provisions to assist families who adopt children: a nonrefundable tax credit for the first \$5,000 in adoption expenses per child, and an exclusion of up to \$5,000 per adoption for certain employer-paid or employer-reimbursed adoption expenses. Both the credit and the exclusion are phased out gradually for taxpayers with incomes between \$75,000 and \$115,000.

NATIONAL SERVICE

The President set as one of his first legislative objectives the establishment of a national service program. As a result, one of this Administration's earliest successful legislative initiatives was the establishment of the Corporation for National and Community Service (CNCS) in 1993. CNCS consolidated several existing volunteer programs and created the AmeriCorps program to engage Americans of all ages and backgrounds in community-based service. Through Corporation-supported projects, over 1.7 million participants serve each year in community organizations to address the Nation's unmet, critical needs. The 2001 appropriation includes \$767 million for the Corporation, a \$483 million, 170 percent increase over 1993. The major programs the Corporation oversees are AmeriCorps, the National Senior Service Corps, and Learn and Serve America.

AmeriCorps: Since the launch of AmeriCorps in September 1994, more than

200,000 participants have served in communities across the country tutoring hundreds of thousands of children, responding to natural disasters in more than 30 States, establishing or expanding more than 40,000 neighborhood safety patrols, and building or rehabilitating more than 25,000 homes for the homeless. For their service, AmeriCorps members are eligible to receive educational awards that help pay for college or job training, or repay student loans. To date, AmeriCorps members have qualified for almost \$450 million in education awards. In 2001, nearly 50,000 members will have the opportunity to help communities meet their pressing needs.

National Senior Service Corps (NSSC):

The NSSC uses the talents, skills, and experience of more than 500,000 older Americans to help solve local problems as Foster Grandparents, Senior Companions, or as Retired and Senior Volunteers (RSVP). The 2001 appropriation includes \$189 million for the NSSC, a \$61 million, 48-percent increase over 1993. Members help meet a wide range of community needs, serve one-on-one with young people with special needs and help other seniors live independently in their homes. In 2000, the RSVP program tutored more than 30,000 students in grades K-6 and helped meet the needs of more than 10,000 terminally ill patients in homes, hospitals, and hospices across the country.

Service Opportunities for Youth: Learn and Serve America supports service-learning programs in schools and community organizations that engage youth in addressing education, public safety, environmental, and other human needs. In 2000, more than one million students participated in these programs, which range from designing neighborhood playgrounds to preparing food for the homeless. The 2001 appropriation provides \$43 million for Learn and Serve.

CULTURAL AGENCIES

The Smithsonian Institution and Other Cultural Agencies: The Smithsonian Institution, the National Gallery of Art, the U.S. Holocaust Memorial Museum, and the John F. Kennedy Center for the Performing Arts all play a significant role in the cultural life of Washington D.C., and the Nation. During this

Administration, these agencies have continued their record of sharing their knowledge and collections with the American public, as well as maintaining and expanding their physical facilities to house their unique assets.

Highlights of the past eight years include:

- The dedication of the U.S. Holocaust Memorial Museum in April, 1993, by President Clinton. Since then, the Museum has welcomed over 15 million visitors, including 63 heads of state.
- The opening of the National Gallery of Art Sculpture Garden in May 1999, and unprecedented exhibitions organized by and presented at the Gallery, including those of paintings of the Dutch artist Vermeer in 1995–1996 and Van Gogh in 1998–1999. Federal appropriations for the National Gallery increased 38 percent during this Administration, from \$55 million in 1993 to \$76 million in 2001.
- The celebration of the Smithsonian’s 150th birthday party on the Mall in August 1996, and the national tour of “America’s Smithsonian” to commemorate the Institution’s 150th year. In addition, the Smithsonian created its web site in 1995, which has allowed universal public access to Smithsonian exhibitions and artifacts. Federal appropriations for the Smithsonian increased 32 percent during this Administration, from \$344 million in 1993 to \$455 million in 2001.
- The Kennedy Center unveiled its state-of-the-art renovation of its concert hall in 1997. Federal appropriations for the Kennedy Center more than doubled during this Administration, from \$14 million in 1993 to \$34 million in 2001.
- The groundbreaking for two new Smithsonian museums—the National Museum of the American Indian on the Mall and the extension of the National Air and Space Museum at Dulles Airport—and the opening of the Woodrow Wilson Center’s new quarters on Pennsylvania Avenue.

The Commission of Fine Arts and the National Capital Planning Commission have responsibilities for the arts and architecture of the Nation’s capital city. The National

Capital Planning Commission completed its long-range plan that will guide development in the D.C. central area for the next 50 to 100 years, including creating opportunities for new museums and memorials and preserving the open space of the National Mall. The Commission of Fine Arts approved designs for numerous monuments and buildings, including the Franklin D. Roosevelt Memorial, which opened in 1997.

The National Foundation on the Arts and the Humanities: The National Endowment for the Arts (NEA), the National Endowment for the Humanities (NEH), and the Institute of Museum and Library Services (IMLS) provide support for important cultural, educational and artistic programs for communities across America. These agencies fund education and lifelong learning programs as well as projects to increase public access to performances, exhibitions, and our Nation’s cultural treasures held by museums, libraries, archives, and historical organizations. The agencies were able to maintain their roles over the last eight years because the Administration won bipartisan support in the face of severe critics in the Congress.

- NEA has moved forward in several dramatic ways over the past several years, placing an emphasis on outreach and focusing on grants to more people and places for education, services for young people, and preservation of cultural heritage. More grants are going to smaller organizations in small and medium-sized communities. NEA has also taken administrative steps to reform aspects of its grant review process thus increasing its accountability. In 2001, NEA is receiving \$105 million in funding, with \$7 million for its new Challenge America program. Through Challenge America, NEA will award grants, directly or in partnership with States, to communities across America that focus on arts education and enrichment, after-school programs, access to the arts for underserved communities, and community arts development initiatives.
- In keeping with Administration priorities, NEH has focused its programmatic efforts on developing new audiences for humanities programming, on innovative uses of

technology, and on the education of our Nation's students. In 1996, NEH launched a major Teaching with Technology initiative that encouraged schools across the country to make use of new technologies to bring the humanities to their students in creative and challenging ways. In 1998, NEH joined with MCI Communications Corporation and the Council of Great City Schools to develop EDSITEment, a humanities-rich meta-web site designed for teachers and students alike. More recently, NEH has embarked on an ambitious, agency-wide effort, Extending the Reach, that seeks to make all NEH programs more accessible to underserved regions and audiences. In 2001, NEH received a \$5 million increase over 2000 for a total of \$120 million, allowing the agency to continue its emphasis on extending the reach of NEH's programs to underserved areas.

- IMLS has inaugurated several programs over the past eight years which encourage educational endeavors ranging from after school programs to mentorships to helping museums and libraries maximize the po-

tential of digital media in their activities. In 1994, museums that made outstanding contributions in community service were honored with the first National Award for Museum Service, followed by the establishment of the National Award for Library Service in 2000. In 2000, a new, comprehensive funding program called National Leadership Grants was established, supporting innovation and collaboration in library and museum services. Through this program, IMLS is aggressively working to help museums and libraries build electronic networks and use technology to make their resources more accessible. In 2001, IMLS' Office of Museum Services was funded at \$25 million and the Office of Library Services received \$207 million in the 2001 appropriation. IMLS will promote access to learning and information resources held by museums and libraries through electronic linkages, helping all 55 State library agencies expand electronic access to materials and increase Internet access, and providing technical support to museums in putting collections information on-line.

12. HEALTH

Table 12-1. Federal Resources in Support of Health
(Dollar amounts in millions)

Function 550	1993 Actual	2001 Estimate	Percent Change: 1993-2001
Spending:			
Discretionary budget authority	20,697	38,884	88%
Mandatory outlays	79,775	138,907	74%
Credit Activity:			
Direct loan disbursements	78	.....	-100%
Guaranteed loans	340	32	-91%
Tax expenditures	53,295	99,750	87%

Since 1993, the Clinton-Gore Administration has worked to expand access to affordable quality health care for all Americans. When President Clinton took office in 1993, the ability of the Nation's health care system to deliver high quality care was in question and the public health delivery system was badly in need of repair: many children were not immunized against deadly diseases; cigarette use among youth was increasing; the number of HIV/AIDS deaths was spiraling; and, mental health was a low priority. Health care costs were rising at a rapid rate and the rate of the uninsured—especially uninsured children—was growing. Fraud and abuse plagued the Medicare and Medicaid programs and the Medicare Trust Fund was projected to be insolvent by 1999.

In the past eight years, the Clinton-Gore Administration has significantly improved the Nation's health care system. The strong economy, preventing medical fraud and abuse, and the Balanced Budget Act (BBA) of 1997 extended the solvency of the Medicare Trust Fund to 2025. Chief among the Administration's accomplishments to expand health care coverage to the uninsured is the creation of the State Children's Health Insurance Program (SCHIP). Enacted in the BBA of 1997, SCHIP now provides coverage to over three million children and has helped reduce the number of uninsured children. The Admin-

istration has also been successful in expanding Medicaid coverage options to other vulnerable groups of uninsured, including workers with disabilities, women with breast cancer, and low-income families.

In addition to expanding access to health care, the Administration initiated targeted efforts to improve the quality of care by promoting patient protections in managed care, protecting patients' privacy, establishing programs to reduce medical errors, and working to eliminate health disparities. Federal Government spending and tax incentives have provided direct health care services; promoted disease prevention; furthered consumer, occupational, and patient safety; and, promoted research. The results of these Federal activities include measurable improvements in the health of Americans. For example:

- life expectancy increased from 75.5 years in 1993 to an all time high of 76.7 years in 1998;
- the infant mortality rate decreased from 837 deaths per 1,000 live births in 1993 to 720 deaths in 1998, a decrease of 14 percent;
- United States deaths related to HIV infection decreased dramatically from 37,267 deaths in 1993 to 13,426 deaths in 1998, a decrease of 64 percent; and,

- the teenage pregnancy rate declined from 116 pregnancies per 1,000 teenage women in 1990 to 98 pregnancies in 1996, a decrease of 16 percent.

The Federal Government is expected to spend about \$178 billion on health-related activities and allocate about \$100 billion in tax incentives in 2001, compared to \$100 billion in Federal spending and \$53 billion in tax expenditures in 1993.

Health Care Services and Financing

Medicaid: Since 1993, the Administration has worked to expand Medicaid coverage to children and families, provide important new health insurance options for people with disabilities, improve the quality and availability of long-term care services, and protect the fiscal integrity of the Medicaid program. This Federal-State health care program served more than 33 million low-income Americans in 2000, including a fourth of the Nation's children. Medicaid is the largest single purchaser of maternity care as well as of nursing home and other long-term care services. The Federal Government spent almost \$118 billion on the program (57 percent of the total) in 2000 while States spent approximately \$89 billion (43 percent).

Expanding Coverage: Over the past eight years, the Administration has expanded coverage to a number of vulnerable uninsured groups.

- The President signed the Ticket to Work and Work Incentives Improvement Act of 1999, which created new coverage options for workers with disabilities. The Administration also took regulatory action giving States flexibility to expand coverage to tens of thousands of people with disabilities who will no longer need to impoverish themselves to qualify for benefits.
- The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) gave States the flexibility to expand Medicaid coverage to more families, and put aside \$500 million for States to simplify their eligibility systems and to conduct outreach. The President has taken several actions to improve coverage for those moving from welfare to work, includ-

ing guidance to States to ensure that families that remain eligible for Medicaid do not lose their health care coverage, and the creation of a performance bonus for States with high or improved rates of coverage.

- The President signed legislation granting Medicaid eligibility to uninsured women with breast and cervical cancer and to young people leaving the foster care system. Coverage will be provided to approximately 22,000 women diagnosed with breast cancer and to 24,000 youth leaving foster care per year, when these options are fully implemented.
- The Administration has actively worked with States to develop Medicaid waivers that expand coverage and test new delivery and financing arrangements within the budget of the existing program.

Long-Term Care Initiative: To encourage the development of long-term care insurance and ensure that those who need long-term care services receive them, the President promoted a comprehensive long-term care initiative, including tax incentives for long-term care, a new State option to support families who provide long-term care, and the availability of private long-term care insurance for Federal employees. The Administration approved over 200 Medicaid home and community-based waivers nationwide, helping hundreds of thousands of people receive critical health care services at home rather than in an institution. The Health Care Financing Administration (HCFA) issued guidance to the States to assist them in addressing the Supreme Court's Olmstead decision, which moves States towards providing services to people with disabilities in the "most integrated setting" appropriate.

Program Integrity: The President successfully worked with the Congress to enact legislation that curbed double-digit growth in Disproportionate Share Hospital payments in the early 1990s. In October 2000, the Administration issued a proposed regulation aimed at curbing questionable State reimbursement practices through the manipulation of upper payment limits for certain public providers. The regulation was issued in January 2001.

State Children's Health Insurance Program (SCHIP): In an effort to reduce the growing number of uninsured children, SCHIP was one of the Administration's highest priorities in the BBA of 1997. The single largest investment in children's health care since the creation of Medicaid in 1965, SCHIP provides \$40 billion over 10 years for States to expand health insurance coverage to uninsured children in families with too much income to qualify for Medicaid but too little to afford private coverage. States have broad flexibility to design their programs, while beneficiaries are protected through basic Federal standards. All fifty States, the District of Columbia and the five U.S. Territories have implemented SCHIP.

HCFA and the States have succeeded in meeting the SCHIP/Medicaid goal of decreasing the number of uninsured children by enrolling children in SCHIP and Medicaid. In 1999, the number of uninsured children declined for the first time since the Census Bureau began collecting health insurance data in 1987. Medicaid enrollment increased by more than a million children in 1999, while over three million children were enrolled in SCHIP as of January 2001.

The Administration has sought to build on the goals of SCHIP. In its 2001 Budget, the Administration proposed a 10-year, \$76 billion initiative that would convert SCHIP into the FamilyCare Program and provide coverage to uninsured parents of children currently enrolled in SCHIP. The Administration has also sought to expand outreach activities to ensure that all children eligible for federally-sponsored health insurance programs receive coverage.

Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA): The Administration worked to secure enactment of the BIPA, which invests about \$35 billion over five years to address some of the overly aggressive payment reductions from the BBA of 1997 and provide enhanced beneficiary protections in Medicare and Medicaid. The bill:

- increases payments to safety net, rural and teaching hospitals, and other health care providers;

- extends Medicaid coverage for people leaving welfare for work;
- makes it easier for States to enroll uninsured children in Medicaid and SCHIP; and,
- improves Medicare preventive benefits.

The BIPA builds on the Balanced Budget Refinement Act of 1999 which also addressed the adequacy of provider payments.

Nursing Home Quality Initiative: The President worked to improve the quality of long-term care by helping States strengthen nursing homes enforcement tools to ensure that facilities meet Federal quality standards, and by increasing Federal oversight of nursing home quality and safety standards. This funding has allowed States to improve and target nursing home inspections and respond to resident and family complaints more quickly.

Public Health Care Services

Health Research: The Administration has increased funding for biomedical research at the National Institutes of Health (NIH) by over \$10 billion, almost doubling the 1993 level of \$10.4 billion. The Federal Government's support of basic and clinical biomedical research is a key to improving human health. The priority the Administration has placed on funding for biomedical research has led to tremendous advancements in the diagnosis, treatment, and prevention of disease and illness in the last eight years.

- On June 26, 2000, NIH announced the completion of the sequencing of the human genome, which has the potential to revolutionize the ways health professionals diagnose, treat, and cure disease.
- In response to findings that putting babies on their backs to sleep decreases the risk of Sudden Infant Death Syndrome, NIH launched a national Back to Sleep public education campaign in 1994 to heighten awareness among parents and health care providers.
- NIH-funded researchers were able to uncover new therapies to prevent breast cancer in high-risk populations.

- NIH-funded research also led to the development of new immune-based therapies to prevent rejection of transplanted organs.

Children's Hospital Graduate Medical Education (GME): Medicare is the largest explicit financier of physician training in the United States. Since free-standing children's teaching hospitals do not serve the elderly, they qualify for almost no Federal Medicare GME support. To level the playing field in GME financing, and to ensure that the health care work force includes sufficient numbers of physicians trained to care for children, this Administration proposed funding in 2000 specifically for Children's Hospital Graduate Medical Education. In 2001, \$235 million was provided, a 487-percent increase over the 2000 funding level of \$40 million. Through this investment, the program seeks to increase the number of residents who train in children's hospitals by providing a level of Federal GME support more consistent with other hospitals.

Patient Safety: In response to a December 1999 Institute of Medicine study reporting that preventable medical errors may cause up to 98,000 deaths in the United States annually, the Administration launched a new initiative aimed at improving patient safety. The Agency for Healthcare Research and Quality will pursue a \$50 million research agenda in 2001 and plans to create a new Center for Patient Safety. In 2001, the Food and Drug Administration (FDA) received a 35-percent increase in funding over 2000, to \$27 million, to fund the modernization of its existing adverse event reporting systems. Information on adverse events and medical errors is submitted to the FDA by doctors, consumers, manufacturers, and other medical professionals.

Public Health Regulation and Safety Inspection: The Administration has increased funding for FDA by 57 percent from \$826 million in 1993 to \$1.3 billion in 2001. This increase, in conjunction with the 1997 FDA Modernization Act, signed into law by President Clinton, has reduced review times for new drugs, medical devices, and biologics. For example, average drug review times have decreased since the beginning of the Administration from nearly three years to just over one year. Consumers now have improved access to breakthrough medical technologies that can improve and save lives, while being assured that new products are both safe and effective.

Food Safety Initiative: In 1997, the President announced the Food Safety Initiative, a comprehensive initiative to improve food safety and reduce foodborne illness. In 1998, the President created the President's Council on Food Safety to strengthen coordination and planning across the Federal food safety agencies. Funding for the Food Safety Initiative at the Department of Health and Human Services (HHS) increased from \$114 million in 1997 to \$257 million in 2001, an increase of 125 percent (see Table 12-2). This additional funding allowed for increased FDA inspections of high risk food production facilities and improved outbreak response, surveillance, and public education by both the Centers for Disease Control and Prevention (CDC) and the FDA. Illness from bacterial foodborne pathogens decreased by 20 percent from 1997 to 1999.

The landmark Pathogen Reduction/Hazard Analysis Critical Control Point (PR/HACCP) rule was also published in 1994, modernizing the Nation's meat and poultry inspection system for the first time in nearly 100

Table 12-2. Food Safety Initiative

(Budget authority, dollar amounts in millions)

	1997 Actual	2001 Enacted	Percent Change: 1997-2001
Department of Agriculture	57	165	189%
Department of Health and Human Services	114	257	125%
Total	171	422	147%

years by utilizing more science-based approaches to inspection. Preliminary foodborne illness surveillance data suggest that significant reductions in the incidence of foodborne illnesses have occurred since FSIS began adoption of the HACCP system. Salmonellosis (salmonella enteritidis) declined 48 percent from 1996 to 1998, and Campylobacteriosis declined 26 percent from 1996 to 1998. These gains were achieved not only through vigorous product testing for deadly pathogens, but also through daily inspection provided by more than 7,000 Food Safety and Inspection Service (FSIS) inspectors and veterinarians.

Funding for the FSIS in the U.S. Department of Agriculture (USDA) increased from \$495 million in 1993 to \$697 million in 2001, an increase of 41 percent. FSIS inspects the Nation's meat, poultry, and egg products, ensuring that they are safe, wholesome, and not adulterated. In 1994, the Department of Agriculture Reorganization Act established the Office of the Under Secretary for Food Safety and consolidated USDA food safety inspection activities in a new public health mission area of USDA within FSIS.

Smoking as a Public Health Problem:

Tobacco use is the second leading cause of death in the United States, and is the largest preventable cause of death. Over 400,000 people die prematurely each year due to tobacco-related illnesses. The Administration has undertaken concerted, comprehensive efforts to make clear the public health menace that smoking represents, particularly to our Nation's youth, and to back up those efforts with specific policy, legislative, and revenue proposals.

- *Education and prevention efforts to curb youth smoking:* In 2001, more than \$100 million was provided for the Centers for Disease Control's tobacco education and control efforts—a tenfold increase since 1993. The focus of these efforts was to deglamorize tobacco, warn young people of its addictive nature and deadly consequences, and help parents discourage their children from taking up the habit.
- *Price increases and penalties to reduce youth smoking:* Public health experts agree that the single most effective way to cut youth smoking is to raise the price

of cigarettes and other tobacco products. The BBA of 1997 increased cigarette excise taxes by 10 cents per pack (from 24 cents to 34 cents) in January 2000, which adds an additional five cent excise tax per pack in January 2002. Since 1997, smoking rates for youths aged 12–17 have decreased from 19.9 percent to 15.9 percent in 1999.

The Administration's last three budgets have pressed for further, major cigarette price increases and have included strong disincentives for the tobacco companies to stop targeting children. To build on the momentum of price increases stemming from the Tobacco Settlement Agreement between tobacco companies and the States, the Administration's 2001 Budget proposed a combination of additional excise tax increases and a youth smoking assessment. Congress failed to enact these proposals.

- *Authority to regulate tobacco products:* In 1995, the Administration and the FDA wrote strong, effective rules to prevent children under age 18 from buying any tobacco product, anywhere in the United States. The FDA was also prepared to end tobacco advertising aimed at young people. In March 2000, the Supreme Court ruled that the FDA must have explicit authorization from the Congress before it can regulate tobacco. In response, the Administration has urged the Congress to give the FDA's tobacco regulations the force of law, building on bipartisan efforts in 1998 where a clear majority of Senators backed explicit legislative authority for FDA to regulate tobacco.
- *Justice Department litigation against tobacco companies:* The Administration is also pursuing litigation against tobacco manufacturers for deceiving the public about the dangers of smoking. This lawsuit is part of a continuing effort to hold tobacco companies accountable for their conduct and to force the industry to forfeit all illicit profits. The Administration has repeatedly urged the Congress to provide the necessary funding to continue these Justice Department litigation efforts. The Administration succeeded in persuading

the Congress not to legislate limitations and, therefore, funding to continue this litigation remains available for 2001.

Childhood Immunizations: In 1993, the President launched a major Childhood Immunization Initiative to improve immunization rates among children in the United States. As part of this initiative, the Administration established the Vaccines for Children (VFC) program in 1994 to ensure the availability of recommended vaccines for low-income children. Since 1993, the Administration has tripled funding for childhood immunizations from \$341 million in 1993 to over \$1 billion in 2001—an increase of 300 percent. Childhood immunization rates are now at an all-time high, with 90 percent of children receiving critical vaccines by the age of two.

Domestic and Global HIV/AIDS: The Administration has demonstrated its leadership in addressing HIV/AIDS, both domestically and internationally, through funding increases for research, prevention, and treatment activities. Since 1993, research on HIV/AIDS at NIH has doubled, from \$1.1 billion to an estimated \$2.2 billion in 2001. This research has increased our understanding of HIV dramatically and led to the development of highly effective antiretroviral therapies that have extended the lives of people with HIV/AIDS. Funding for domestic HIV/AIDS prevention has grown from \$498 million in 1993 to \$788 million in 2001, an increase of \$290 million, or 58 percent, which has helped reduce the rate of newly re-

ported HIV/AIDS cases in infants due to perinatal transmission by 73 percent. The Administration has also increased funding for the Ryan White CARE Act by 369 percent, or \$1.4 billion, from 1993 through 2001, enabling approximately 500,000 people to access HIV/AIDS related medical and support services each year, including lifesaving drug therapies. The Administration's contribution to the HIV/AIDS epidemic in the United States has resulted in a 70-percent decline in HIV/AIDS mortality since 1995 and AIDS is no longer among the top 15 causes of death—it was the eighth leading cause in 1996.

To address the HIV/AIDS epidemic internationally, in 1999 the Administration established the Leadership and Investment in Fighting an Epidemic (LIFE) Initiative, an interagency effort to slow the spread of HIV/AIDS abroad, primarily in sub-Saharan Africa. With USAID and the Departments of Defense and Labor, the Centers for Disease Control and Prevention received \$35 million in 2000 and \$105 million in 2001, an increase of \$70 million (199 percent) for prevention activities internationally. The U.S. funding will contribute to the United Nations goal of reducing the incidence of HIV infection 25 percent among 15–24 year olds by 2005.

Mental Health: The Surgeon General's 1999 report on mental health states that one in five Americans is living with a mental health disorder, and that less than two-thirds of adults with severe mental illness receive

Table 12-3. Government-wide HIV/AIDS Spending

(Budget authority, dollar amounts in millions)

Agency	1993 Actual	2001 Enacted	Percent Change: 1993–2001
Health and Human Services	3,708	10,110	173%
Social Security Administration	675	1,312	94%
Veterans	299	358	20%
U.S. Agency for International Development	117	330	182%
Office of Personnel Management	175	293	67%
Housing and Urban Development	100	258	158%
Defense	155	110	–29%
Justice/Bureau of Prisons	5	15	200%
Labor	1	12	–1,100%
Other agencies	1	1	.....
Total	5,236	12,799	144%

treatment. Reflecting its commitment to improving mental health, it supported the law that gives parity to mental health benefits in private health plans. The Administration also increased funding for mental health services through the Substance Abuse and Mental Health Services Administration. The 2001 funding level for Mental Health is \$782 million, a \$151 million increase over 2000, more than doubling the 1993 level. The largest part of this increase is an additional \$64 million for the Mental Health Block Grant, which supports State efforts to develop community-based systems of care for the most seriously mentally ill where patients can receive the necessary treatment and supports to live self-fulfilling, productive lives. This increase will bolster States' youth violence abatement programs, jail diversion programs for youth, post-incarceration and post-hospitalization programs, suicide prevention programs for youth and the elderly, and will better equip States in responding to the mental health needs of persons moving from welfare to work. Increases for mental health services also include:

- \$42 million for Knowledge Development and Application activities;
- \$25 million for new Targeted Capacity Expansion grants for early intervention and prevention, as well as local capacity expansion;
- \$9 million for Children's Mental Health Services;
- \$6 million for grants to assist the homeless; and,
- \$5 million for grants to ensure protections for the mentally disabled against abuse, neglect and civil rights violations.

Substance Abuse Treatment and Prevention: Funding for substance abuse treatment and prevention services has increased by \$501 million, or 31 percent, since 1993. The 2001 funding level of \$2.1 billion includes \$1.67 billion for the Substance Abuse Block Grant to assist States in their efforts to prevent and treat substance abuse. In 2001, Block Grant funding will serve over 1.6 million people. While national levels of illicit drug use among 12–17 year olds increased from 1992 until 1997, a combination of Federal, State, and local investments in treatment and prevention

has contributed to a 21-percent decline in that population's rate of use between 1997 and 1999.

Family Planning: Since 1970, the Title X—Family Planning program has been the cornerstone of a national network to reduce unintended pregnancy and prevent adolescent pregnancy. The Federal effort has contributed to a 17-percent decline in the teenage pregnancy rate since it peaked in 1990. The Administration has increased family planning funding by 46 percent from \$173 million in 1993 to \$254 million in 2001. In addition to providing contraceptive services and abstinence education, the family planning program also finances sexually transmitted disease prevention and treatment, including the prevention of HIV transmission. Since 1996, the number of HIV tests administered by family planning clinics has increased by over 50 percent enabling more HIV infected individuals to enter into care and treatment. The Administration has consistently fought legislative riders limiting women's access to contraceptive health services. For example, in 2001, the Administration fought successfully to exclude language that would have restricted public health funds for emergency contraception health services in primary and secondary schools.

Indian Health Service (IHS): The Administration has demonstrated its commitment to addressing major health problems affecting Native Americans and Alaska Natives through a \$1.2 billion, or 58-percent, funding increase for the IHS since 1993. This funding enabled IHS to improve the quality and access to basic medical care for Native Americans, and also target a number of health problems, such as diabetes, that disproportionately affect Native Americans. IHS efforts in monitoring, prevention education, and treatment have resulted in an eight percent improvement in the average blood sugar levels of IHS' diabetic patients between 1994 and 1999.

Racial Disparities in Health: In 1998, the President established the national goal of eliminating disparities in health status among racial and ethnic groups by the year 2010 in six key health areas where minority groups were disproportionately affected: infant mortality, cancer, immunizations, cardiovascular disease, HIV/AIDS, and diabetes. As part of

this effort, \$10 million was provided in 1999 to fund demonstration projects to better understand and address these racial disparities in health. In 2001, these projects were funded at \$38 million, an increase of \$28 million, or 279 percent. Through the Agency for Healthcare Research and Quality, the Administration invested more than \$40 million annually in 2000 and 2001 to fund health disparities research. In 1999, the Administration created the Initiative to Address HIV/AIDS in Racial and Ethnic Minority Communities, with a \$167 million investment in HIV/AIDS research, prevention, and treatment to reduce disparities. This investment has since grown to \$357 million in 2001. In 2001, NIH will establish the Center for Research on Minority Health and Health Disparities to lead NIH's efforts to reduce health disparities. NIH conducts over \$1 billion of research annually on minority health and health disparities.

Consolidated Health Centers: Through a network of roughly 700 clinics, the Consolidated Health Centers provide preventive and primary care services to over nine million patients in the poorest rural and inner city areas. These services reduce hospitalizations and emergency room use and help prevent more expensive chronic disability care. Funding for Consolidated Health Centers has increased by 71 percent from \$683 million in 1993 to \$1,169 million in 2001. Through this funding, Consolidated Health Centers will continue their efforts to eliminate health disparities by assuring access to high-quality healthcare.

Community Access Program (CAP): In 1999, the Administration launched a new initiative to coordinate health care systems, increase the volume of services delivered, and establish an accountability system to ensure adequate care for the uninsured. CAP grant funds will be tailored to meet a community's health care needs, including developing management information systems, streamlining patient intake, coordinating patient referral arrangements, and providing comprehensive services for the uninsured. In 2000, \$25 million was awarded to 23 communities and, with the \$125 million provided in 2001, at least 100 new communities will receive CAP grants.

Response to the Threat of Bioterrorism: Over the past three years, the Administration

has marshalled substantial resources to deal with emerging threats relating to potential terrorist use of biological and chemical weapons. These efforts are part of a broader, multi-agency effort to address counterterrorism. HHS funding for medical and public health preparedness related to these threats has increased from \$16 million in 1998 to an estimated \$326 million in 2001. Key components of the Administration's bioterrorism strategy include establishing a medical stockpile of vaccines and therapeutics, improving vaccine research and development, intensifying public health surveillance activities, conducting medical responder training and exercises, and supporting State and local governments to help prepare for potential bioterrorist threats.

Consumer Product Safety Commission (CPSC): The CPSC is an independent Federal regulatory agency that helps keep American families safe by reducing the risk of injury or death from consumer products. CPSC safety standards annually prevent approximately 150 to 200 infant deaths from poorly designed cribs. Since 1993, financing for CPSC's efforts to develop voluntary safety standards, enforce mandatory standards, and recall harmful products has grown by 24 percent from \$42 million in 1993 to \$53 million in 2001.

Workplace Safety and Health

In 2001, the Federal Government will spend more than \$670 million per year—almost 40 percent more than 1993—to promote safe and healthful conditions for over 100 million workers in six million workplaces, through the Department of Labor's Occupational Safety and Health Administration and Mine Safety and Health Administration. Through a combination of enforcement, compliance assistance, strategic partnerships, and regulatory approaches, these agencies protect workers from illness, injury, and death caused by occupational exposure to hazardous substances and conditions. Their efforts have contributed to significant improvements in the Nation's workplaces.

From 1993 to 1998, the most recent year for which data are available, the overall occupational injury and illness rate has dropped 21 percent, to a record low of 6.7 cases per 100 thousand full-time equivalent

workers. The mining industry experienced a 28-percent reduction in its occupational injury and illness rate during the same period.

From 1993 to 1999, the number of occupational fatalities dropped four percent, from 6,271 to a record low of 6,023. Mine fatalities, which during the 1970s ranged from 200 to 300 per year, in 1999 numbered 79.

Federal Employees Health Benefits Program (FEHBP)

Established in 1960 and administered by the Office of Personnel Management (OPM), the FEHBP is America's largest employer-sponsored health benefit program, providing over \$19.5 billion in health care benefits a year to about nine million Federal workers, annuitants, and their dependents. About 85 percent of all Federal employees participate in the FEHBP, and they select from more than 250 participating health plans across the country. The FEHBP is widely viewed as a model health care program. Many of the accomplishments noted below are examples of this leadership.

OPM has greatly improved the quality and quantity of health plan information provided to enrollees, consumer protections, and the scope of health benefits covered by the program. In 1993, the annual health benefits open season guide provided program enrollees little more than cost information regarding the program's participating carriers. By 1999 these materials had been enhanced to provide accreditation, performance, and customer satisfaction information in plain language consumers can easily understand. The FEHBP became fully compliant with the President's Patients' Bill of Rights in 2000, providing enrollees even stronger rights of information disclosure, choice of providers and plans, rights of complaint and appeal, and other consumer protections.

Between 1993 and 1999, FEHBP benefits were greatly expanded. OPM adopted several important benefits policies to improve access to women's health services. They include: benefits for the diagnosis and treatment of infertility problems; benefits for mammography screening consistent with National Cancer Advisory Board recommendations; coverage

for breast reconstructive surgery; coverage for high dose chemotherapy in conjunction with bone marrow transplants for breast and certain ovarian cancers; guaranteed hospital stays for mastectomy, as well as for maternity conditions subject to the Newborns' and Mothers' Health Protection Act of 1996; direct access to obstetricians and gynecologists consistent with the President's Patients' Bill of Rights; and, the provision of a full range of contraceptive drugs and devices approved by the Food and Drug Administration.

In addition, OPM provided guidance to FEHBP-participating carriers on family-focused services: i.e., the provision of benefits for childhood immunizations; offering supplemental dental and vision coverage; benefits for routine screening and diagnostic testing for colorectal cancer and other diseases; making health plan pre-authorization and referral procedures customer-friendly; and, other customer service enhancements. Also, the FEHBP's benefit structure now provides parity in the provision of mental health and substance abuse benefits, and FEHBP carriers are instituting initiatives to improve health care quality through the prevention of medical errors and enhancements in patient safety.

OPM implemented premium conversion in the FEHBP in 2000. Under this arrangement, Federal employees use pre-tax dollars to pay health insurance premiums to the program. Premium conversion uses Federal tax rules to let employees deduct their share of health insurance premiums from their taxable income, thereby reducing their taxes and making health coverage more affordable.

Long-Term Care Insurance Program:

Since 1998, OPM worked with the Administration, the Congress, and other stakeholders to bring about the enactment of a group long-term care insurance program for Federal employees and retirees, United States Postal Service employees and retirees, active duty and retired military personnel, and certain qualified relatives. Passed in 2000, the Act enables approximately 13 million people to choose long-term care insurance by October 2002, on an enrollee-pay-all basis. OPM is in the process of developing a flexible long-term care product, including provisions for nursing

home care, personal care, home health care, and adult day care.

Tax Incentives

In the past eight years, the Administration has improved health tax policy. The Administration supported allowing self-employed people to deduct a part (60 percent in 2001, rising to 100 percent in 2003 and beyond) of what they pay for health insurance for themselves and their families. The Health Insurance Portability and Accountability Act

of 1996 added a number of tax incentives as well, including clarifying the taxation of qualified long-term care insurance premiums, expenses and benefits; modifying the taxation of accelerated death benefits under life insurance contracts; and expanding penalties provided under the Consolidated Omnibus Budget Reconciliation Act of 1995 to enforce group health plan portability, access, and renewability requirements. The Administration has also supported the development of drugs for certain rare diseases or conditions through the Orphan Drug Credit.

13. MEDICARE

Table 13-1. Federal Resources in Support of Medicare

(Dollar amounts in millions)

Function 570	1993 Actual	2001 Estimate	Percent Change: 1993–2001
Spending:			
Discretionary budget authority	2,829	3,372	19%
Mandatory outlays	127,903	218,820	71%

At the beginning of the Clinton-Gore Administration, Medicare was projected to become insolvent in 1999. Throughout the past eight years, the Administration proposed and secured important legislation and took appropriate administrative actions that strengthened the Medicare program and modernized it for the 21st Century. The Administration's stewardship of Medicare has resulted in the longest Medicare Trust Fund solvency in a quarter century, extending the life of the Medicare Trust Fund by a total of 26 years and offering beneficiary premiums that are nearly 20 percent lower today than projected in 1993.

Plan to Restructure Medicare

The Administration also proposed a new and comprehensive plan to strengthen and modernize Medicare for the 21st Century. The Administration's plan prepares the program for its upcoming health, demographic, and financing challenges. This initiative would: (1) make Medicare more competitive and efficient; (2) modernize and reform Medicare's benefits, including the provision of a long-overdue voluntary prescription drug benefit and cost-sharing protections for preventive benefits; and, (3) dedicate part of the non-Medicare/Social Security surplus to the program to extend the life of the Medicare Trust Fund as an alternative to beneficiary cuts or further provider reductions.

Make Medicare More Competitive and Efficient:

The Administration's proposal would make the traditional fee-for-service program more competitive through the use of market-oriented purchasing and quality improvement tools to improve care and constrain costs. It would provide new or broader authority for competitive pricing within the existing Medicare program, incentives for beneficiaries to use physicians who provide high quality care at reasonable costs, coordinated care for beneficiaries with chronic illnesses, and other best-practice private sector purchasing mechanisms. The President's competitive defined benefit proposal would, for the first time, inject true price competition among managed care plans into Medicare, which make it easier for beneficiaries to make informed choices about their plan options and, over time, save money for both beneficiaries and the program.

Modernize Medicare's Benefits: The President's initiative would also modernize Medicare's benefit structure by adding a long-overdue voluntary outpatient prescription drug benefit. The Administration's proposal offers a broad-based benefit through the Medicare program. A broad-based benefit ensures that all Medicare beneficiaries receive a standard, affordable drug benefit and is the only means by which to provide effective assistance. This historic drug benefit has no deductible and pays for half of the beneficiary's drug costs from the first prescription filled each year up to \$5,000 in spending when fully phased-in.

This benefit also ensures that beneficiaries' liability for drug cost sharing is limited to \$4,000. The benefit provides beneficiaries with a price discount similar to that offered by many employer-sponsored plans for each prescription purchased—even after the \$5,000 limit is reached. The Administration's plan ensures low-income beneficiaries assistance with cost-sharing. The Administration estimates the costs of this benefit at \$253 billion over 10 years.

Extend the Life of the Trust Fund: While the President's Medicare plan would strengthen the program and make it more competitive and efficient, no amount of policy-sound savings would be sufficient to address the fact that the elderly population will double from almost 40 million today to 80 million over the next three decades. The President's proposal would take the Hospital Insurance (HI) Trust Fund off-budget, ensuring that its surpluses are not used for any other purposes and, therefore, will be used for debt reduction. The proposal would transfer the \$115 billion of interest savings due to the resulting debt reduction to the HI Trust Fund to ensure that it remains solvent until at least 2030.

Without new financing, excessive and unsupportable provider payment cuts or beneficiary cost sharing increases would be needed. Protecting the Medicare surplus for Medicare is necessary in order to maintain solvency of the Trust Fund into the future.

Legislative Successes

During the last eight years the Administration advocated strongly for several pieces of crucial legislation that have been instrumental in making Medicare more efficient and extending its Trust Fund solvency through program reforms and increased program integrity efforts.

The Omnibus Budget Reconciliation Act of 1993 (OBRA 1993): The President proposed and later signed, on August 10, 1993, legislation that was the Administration's first step towards improving Medicare solvency. OBRA 1993 increased the percentage of Old-Age and Survivors and Disability Insurance benefits that are subject to the income tax, transferring the increased revenues to the Medicare HI Trust Fund. OBRA 1993 also reduced the

growth rates of Medicare payments to providers such as hospitals, skilled nursing facilities, and home health agencies.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA): The President also proposed and, on August 21, 1996, signed additional legislation, HIPAA, which created a new and stable source of funding to fight Medicare fraud and abuse. It provided mandatory funding to the Health Care Financing Administration (HCFA) for specified program integrity functions such as medical review and audit. It also provided mandatory funding for the Office of the Inspector General in the Department of Health and Human Services (HHS) and the Department of Justice for investigation and prosecution of fraudulent providers in the Medicare program. Since HIPAA's passage, nearly \$1.6 billion in fraud and abuse savings has been returned to the Medicare Trust Fund. Moreover, the HCFA actuaries attribute some of the recent decreases in Medicare expenditures to certain efforts to combat fraud and abuse. The actuaries conclude that the Department of Justice investigations, subsequent indictments, and the possibility of triple damages may have prompted hospitals to reduce the incidence of "up-coding" (i.e., excessive billing for hospital procedures) which has contributed to the increased solvency of the Medicare Trust Fund.

HIPAA also provided the Administration with the authority to develop a single set of national standards for all health care providers and health plans that engage in electronic administrative and financial transactions to promote more cost-effective electronic claims processing and coordination of benefits. Implementation of this law will eliminate administratively burdensome, duplicative, and wasteful billing requirements for health care providers and insurers.

The Balanced Budget Act of 1997 (BBA): In 1997, the Administration secured enactment of this legislation, which balanced the budget, modernized the Medicare program, and added at least 10 years to the life of the Medicare Trust Fund. The BBA included a series of structural reforms, bringing Medicare in line with the private sector and preparing it for the baby boom generation. These reforms included: 1) increased number of health plan

options; 2) improved Medicare managed care payment methodology and informed beneficiary choice; 3) new prospective payment systems for skilled nursing facilities, home health, inpatient rehabilitation hospital, and hospital outpatient departments; and, 4) new private-sector purchasing tools such as competitive bidding for durable medical equipment.

The BBA also made important changes to beneficiary services which include: 1) a waiver of cost-sharing for mammography services and the provision of annual screening mammograms for beneficiaries age 40 and over; 2) a diabetes self-management benefit; 3) Medicare coverage of colorectal screening and cervical cancer screening; 4) coverage of bone mass measurement tests to help women detect osteoporosis; and, 5) increased Medicare reimbursement rates for certain immunizations to protect seniors from pneumonia, influenza, and hepatitis.

The Medicare, Medicaid and SCHIP Balanced Budget Refinement Act of 1999 (BBRA): After the BBA's enactment, it became clear that some of the payment reductions needed modification. The Administration worked to secure enactment of the BBRA, addressing the larger than intended cuts in payments to Medicare providers. Complementing the over 25 actions taken by the Administration to improve Medicare payment methodologies, the BBRA increased Medicare payments for hospitals, nursing homes, home health agencies, managed care plans, and other Medicare providers. The bill modified the hospital outpatient department prospective payment system by smoothing the transition for certain hospitals that are greatly affected by enactment of this system.

In addition, the BBRA increased payments for rehabilitative therapy services, provided longer coverage of immunosuppressive drugs, and established limits on outpatient department coinsurance. The law altered HCFA's plan for risk adjustment for managed care plans by allowing for a five-year phase-in plan. The law also provided an entry bonus for managed care plans entering counties not previously served and for plans that had previously announced that they were withdrawing from certain counties.

The Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA): The Administration worked to secure enactment of the BIPA, which invests about \$35 billion over five years in order to address some of the overly aggressive payment reductions resulting from the BBA of 1997 as well as other shortcomings in the Medicare program. The BIPA addressed the needs of health care providers by increasing Medicare reimbursement to hospitals, nursing homes, home health agencies, and other providers. The BIPA expanded the preventive benefits available to all Medicare beneficiaries including new nutrition therapy and glaucoma screening and ensured greater access to colon and cervical cancer screening. It reduced the cost-sharing that beneficiaries have to pay for hospital outpatient services; provided permanent coverage of drugs that help prevent the rejection of organ transplants; and facilitated the use of therapeutic adult day care services for persons with Alzheimer's disease. Finally, the BIPA established an improved coverage and appeals process for beneficiaries to ensure that they have access to the health care services they need.

Administrative Actions

In addition to securing important legislation, the Administration has used its administrative authority to improve and modernize the Medicare program. One of the major administrative efforts was Operation Restore Trust, which aimed to reduce Medicare fraud through provider and beneficiary awareness. Its Nursing Home Initiative, to improve the quality of care for Medicare beneficiaries residing in nursing homes, resulted in a major increase in enforcement actions. The Administration also launched efforts to increase beneficiaries' awareness of Medicaid's cost sharing assistance programs; long-term care options; and, preventive services including a major drive to increase the number of seniors receiving flu shots.

Most significantly, the Administration took action to increase access to clinical trials for Medicare beneficiaries. Previously, Medicare did not pay for items and services related to clinical trials because of their experimental nature, i.e., their unknown benefits and potential risks to Medicare

beneficiaries. The absence of Medicare coverage has been a contributing factor to these low participation rates by the elderly. On June 7, 2000, the President issued an Executive Memorandum directing the Medicare program to revise its payment policy and immediately begin to reimburse providers explicitly for the cost of routine patient care associated with participation in clinical trials. The President also directed HHS to take additional action to promote the participation of Medicare beneficiaries in clinical trials for all diseases, including: activities to increase beneficiary awareness of the new coverage option; actions to ensure that the information gained from important clinical trials is used to inform coverage decisions by properly structuring the trial; and reviewing the feasibility and advisability of other actions to promote research on issues of importance to Medicare beneficiaries.

Medicare Management Reform

In its 1999 Budget, the Administration introduced its management reform initiative to address the challenges facing HCFA. These challenges include modernizing its administrative infrastructure, meeting pressing statutory deadlines for program changes from BBA, BBRA, and HIPAA, and the need to be highly responsive to its customers. This initiative was designed to improve HCFA's management of the Medicare program through a

continuing reform process by increasing HCFA's flexibility to operate as a prudent purchaser of health care while also increasing accountability. HCFA has evaluated its personnel needs and potential hiring flexibility, developed a long-term human resources strategic plan, increased accountability to constituencies, and implemented structural reforms to improve relationships between HCFA's central and regional offices and HHS. Additionally, the Administration transmitted to the Congress its contracting reform legislative proposal, which is designed to introduce competition into the Medicare contracting environment and allow HCFA to select contractors from a wider pool. Finally, the President's 2001 Budget also included a proposal to fund a contractor oversight initiative to ensure that contractors have appropriate controls in place. This initiative builds on HCFA's successes in guarding program integrity in the Medicare program.

In summary, the Administration has taken important steps to ensure that the Medicare Trust Fund remains viable for coming generations through both legislative and administrative actions. The President has proposed a plan for the future of the program that is progressive and will modernize the program for the 21st Century. These changes are crucial to ensure that upcoming generations receive quality health care.

14. INCOME SECURITY

Table 14-1. Federal Resources in Support of Income Security

(Dollar amounts in millions)

Function 600	1993 Actual	2001 Estimate	Percent Change: 1993-2001
Spending:			
Discretionary budget authority	31,918	39,546	24%
Mandatory outlays	175,949	213,012	21%
Credit Activity:			
Direct loan disbursements	85	20	-76%
Guaranteed loans .....	.....	83	NA
Tax expenditures	74,150	131,900	78%

NA=Not applicable.

Declining Number of Families in Poverty

A good indicator of the Nation's state of income security is the poverty rate. Since passage of the Clinton-Gore Administration's economic plan in 1993, the poverty rate has declined from 15.1 percent in 1993 to 11.8 percent in 1999, a rate lower than any other year in the 1980s or 1990s. Furthermore, poverty among those aged 65 or older in 1999 was at an all-time low of 9.7 percent; and poverty among children in families declined from 22 percent in 1993, a height last seen in the mid-1960s, to 16.3 percent in 1999, lower than any other level in the 1980s or 1990s. Also noteworthy is that the 1999 poverty rate of black children, while still a high 32.7 percent, was the lowest level ever measured.

These improvements have been driven by an historic economic recovery and landmark legislation designed to move families from welfare to work by making work pay and providing support to low-income working families. As evidence of this legislation's success, less than five percent of families with children did not work in 1999, compared to nine percent in 1993. Furthermore, the poverty rate among working families with children declined from 12.6 percent in 1993 to 11 percent in 1999.

Earned Income Tax Credit: The decline in poverty among working families tells only part of the story. As the growing economy increased employment opportunity, expansions to the Earned Income Tax Credit (EITC) in 1993 were making work pay. The Administration's 1993 expansion increased benefits significantly for those with two or more children, and allowed workers who live with their children at least half of the tax year to claim a credit. As a result of these expansions, credits paid through the EITC program increased from \$15.5 billion in 1993 to nearly \$31 billion in 1999, and the number of families receiving assistance from the program increased by a quarter, from 15 million to 19 million.

The EITC also has been effective in attracting more workers to the labor market. One study estimates that the EITC alone was responsible for 34 percent of the increase in annual employment of single mothers from 1992 to 1996.

Ending Welfare as We Know It

Even before the 1996 welfare reform legislation, many States were well on their way to changing their welfare programs to jobs programs. By granting Federal waivers, the Administration allowed 43 States—more than all previous Administrations combined—to

require work, time-limit assistance, improve child support enforcement, and/or encourage parental responsibility. The vast majority of States have chosen to build on their welfare demonstration projects approved by the Administration in their implementation of welfare reform.

In 1996, the President signed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), a bipartisan welfare plan that has dramatically changed the Nation's welfare system. The law replaced the Aid to Families with Dependent Children program with the Temporary Assistance for Needy Families (TANF) program, which provides \$16.7 billion annually in block grants to the States. The law contains strong work requirements, time limits on assistance, performance bonuses to reward States for moving welfare recipients into jobs and reducing out-of-wedlock births, State maintenance-of-effort requirements, comprehensive child support enforcement, and supports for families moving from welfare to work including increased funding for child care. State strategies are making a difference in the success of welfare reform, specifically in job placement, child care, and transportation.

Cash Assistance: Since January 1993, the welfare rolls have fallen by nearly 60 percent—from 14.1 million to 5.8 million—resulting in the fewest number of people on welfare since 1968. The percent of Americans on welfare is now at 2.1 percent, the lowest level since 1963. In August 1999, the Council of Economic Advisers (CEA) reported that the single most important factor contributing to this historic decline is the implementation of welfare reform. Of the caseload reduction from 1996 to 1998, the CEA estimated that approximately one-third was due to Federal and State policy changes resulting from welfare reform and about 10 percent was due to the strong economy.

Employment: At President Clinton's insistence, the 1996 welfare reform legislation included both rewards and penalties to encourage States to place people in jobs. According to reports filed by 46 States, more than 1.2 million welfare recipients nationwide went to work in just the one-year period between October 1998 and September 1999. Retention rates

also were promising: 78 percent of those who got jobs were still working three months later. States also reported an average earnings increase of 31 percent for former welfare recipients, from \$2,027 in the first quarter of employment to \$2,647 in the third quarter.

The first three years of data on work activity since welfare reform also show that all States met the law's work participation requirements for overall work activity levels. Nationally, 38 percent of all welfare recipients were working or in work-related activities in 1999. The data also show that nationwide, the percentage of welfare recipients working has increased to nearly five times the level it was when the President took office, rising from seven percent in 1992 to an all-time high of 33 percent in 1999. The vast majority of working recipients are in paid employment, with the remainder involved in community service or subsidized employment.

Welfare-to-Work Grants: Because of the President's leadership, the 1997 Balanced Budget Act included \$3 billion over 1998 and 1999 for Welfare-to-Work grants to help States and local communities move long-term welfare recipients and certain noncustodial parents into lasting, unsubsidized jobs. Funds can be used for job creation, job placement and job retention efforts, including wage subsidies to private employers and other critical post-employment support services. The Department of Labor provides oversight, but most of the dollars are placed through local business-led boards into the hands of those who are on the front lines of the welfare reform effort. For 1998 and 1999, the Administration awarded 190 competitive grants that support innovative local strategies to help noncustodial parents and individuals with limited English proficiency, disabilities, substance abuse problems, or a history of domestic violence get and keep employment. This program also is discussed in Chapter 11, "Education, Training, Employment, and Social Services."

Welfare Recipient Hiring: The Welfare-to-Work Tax Credit, enacted in the Taxpayer Relief Act of 1997, offers employers a tax credit equal to 35 percent of the first \$10,000 in wages in the first year of employment, and 50 percent of the first \$10,000 in wages in the second year for a total credit of up to

\$8,500 for each welfare recipient hired and retained. This credit complements the Work Opportunity Tax Credit, which offers a credit of up to \$2,400 for the first year of wages for eight groups of job seekers. From 1997 to 2000, employers were eligible to claim these tax credits for over 1.4 million newly-employed welfare recipients and other disadvantaged individuals. Both credits are currently available through December 2001. These credits also are discussed in Chapter 11.

In addition, at the President's urging, the Welfare to Work Partnership was launched in May 1997 to lead the national business effort to hire people from the welfare rolls. The Partnership began with 105 participating businesses, and has now grown to more than 20,000 businesses of all sizes and industries. Since 1997, these businesses have hired an estimated 1.1 million welfare recipients, surpassing the challenge the President set in May 1998. In addition, the Small Business Administration is addressing the unique and vital role of small businesses that employ over half of the private work force, by helping small businesses throughout the country connect with job training organizations and job-ready welfare recipients. Federal agencies also have played a role and have hired nearly 50,000 welfare recipients.

Teen Pregnancy Prevention: Significant components of the President's comprehensive effort to reduce teen pregnancy became law when the President signed the welfare reform legislation. PRWORA requires unmarried minor parents to stay in school and live at home or in a supervised setting; encourages "second chance homes" to provide teen parents with the skills and support they need; and provides \$50 million a year for five years in new funding for State abstinence education activities. Data show that teen birth rates have declined nationwide by 20 percent from 1991 to 1999, and are now at the lowest rate on record since tracking began 60 years ago. These improvements are seen among younger and older teens, married and unmarried teens, all States and all ethnic and racial groups.

Rewards for High Performing States: The 1996 welfare reform legislation included \$200 million annually for awards to States

that perform especially well in achieving the goals of TANF and \$100 million for States that reduce out-of-wedlock births. In December 1999, the President announced that 27 States were awarded the first high performance bonuses to reward superior results or improvement in moving people from welfare to work. A year later, 28 States received the second round of awards. Each year, the \$200 million in bonuses went to the top 10 States with the best records in each of four categories related to moving parents on welfare into jobs and their success in the work force.

Through regulations to award future high performance bonuses, the Administration also has put in place new incentives for States to provide programs that help working families succeed and encourage the formation of two-parent families. The final regulation retains the original job entry and success in the work force measures, and adds measures for participation in Medicaid and the State Children's Health Insurance Program (SCHIP), participation in the Food Stamp program, receipt of child care subsidies by eligible families, and family formation and stability. These new measures will ensure that welfare reform will continue to move millions of families from dependence to independence by encouraging work, supporting working families to help them succeed and stay off welfare, and increasing the number of children living with married parents. A total of \$140 million in bonus funds is available annually for the work measures, with \$60 million available for the work support and family formation measures.

In 1999 and 2000, HHS awarded bonuses of \$20 million to each of four States and the District of Columbia for achieving the Nation's largest decreases in out-of-wedlock births. These bonuses were awarded under the welfare reform law, which provided \$100 million annually for up to five States with the largest reductions in the proportion of out-of-wedlock births that also show decreases in their abortion rates. Nationwide, the 1999 birth rate for unmarried women was six percent lower than its high in 1994, and three percent lower than in 1992.

Creating Comprehensive Support for Working Families

Child Care: The number of children with parents who work outside of the home is higher than ever before and child care expenses are often the second or third largest item in a low-income working family's household budget. The 1996 welfare reform law increased child care funding by \$4 billion over six years to provide child care assistance to families moving off welfare and to other low-income families. The Administration also secured additional discretionary funds for subsidies and quality enhancement, which were major components of its comprehensive child care initiative to address the struggles our Nation's working parents face in finding child care they can afford, trust and rely on and that will help to prepare their children for success in school.

An important element of that initiative was to increase the availability of child care subsidies. The Child Care and Development Fund (CCDF) provides grants to States to subsidize and improve the quality of care for low- and moderate-income children. Under this Administration, Federal funding for child care subsidies has more than doubled, increasing from \$1.8 billion in 1993 to an estimated \$4.4 billion in 2001. In 2001, the discretionary contribution to the CCDF increased by \$817 million, bringing total discretionary child care spending to \$2 billion and allowing the program to serve nearly 150,000 additional children. Combined with the child care funds provided in welfare reform, the new discretionary funds will enable the program to serve over 2.1 million children monthly in 2001.

Child Support: An important component of the Administration's policies to help working families is to ensure that unmarried parents receive the support they are entitled to under the law from noncustodial parents. The 1996 welfare reform law included significant provisions to strengthen child support enforcement. Among other changes, the legislation streamlined paternity establishment procedures, provided for State and Federal registries of newly hired employees, established statewide support collection and distribution centers, and initiated tough new penalties when child support

obligations are not met. In addition, in 1998, the President signed legislation enacting tougher penalties for parents who repeatedly fail to support children living in another State or who flee across State lines. Today, parents who owe child support can have their wages garnisheed, their bank accounts seized, their Federal loans denied, and their tax refunds withheld to help make up what they owe.

Since the Administration took office, child support collections have doubled from \$9 billion in 1993 to \$18 billion in 2000. The number of fathers taking responsibility for their children by establishing paternity rose to a record 1.5 million in 1999 (the most recent data available), nearly triple the 1993 figure of 554,000. In addition, a new program established under PRWORA has identified nearly 900,000 delinquent parents with accounts valued at \$3 billion. In 2001, net Federal costs for child support will be an estimated \$2.4 billion.

Child support is an important source of income for poor children. One study estimates that in 1997, child support lifted a half million children out of poverty, and that for poor children who receive child support, it represents, on average, over one-quarter of their family's income.

Individual Development Accounts (IDAs): In 1992 during his campaign, the President proposed Individual Development Accounts (IDAs) as a way to empower low-income families to save for a first home, a post-secondary education, or to start a new business. The 1996 welfare reform law authorized the use of TANF grants to create IDAs. In addition, in 1998 the President signed legislation creating a five-year \$125 million demonstration program. Households that are eligible for TANF, qualify for the EITC, or have incomes below 200 percent of the Federal guidelines, and have a net worth below \$10,000 are eligible to participate in the demonstration. In 1999 and 2000, the Department of Health and Human Services awarded nearly \$20 million to 65 grantees that will establish over 16,000 savings accounts for low-income workers. The 2001 Budget included \$25 million for IDAs to create over 20,500 new accounts.

Food Stamps: As parents leave welfare for work, their continued access to nutritional as-

assistance is a critical factor in making the transition to self-sufficiency. It is also important that States reach out to low-income working families who may be eligible for food stamps since the assistance could keep them off welfare. In 1993, the food stamp program assisted nearly 27 million individuals at a cost of \$23.6 billion. Both participation and funding have declined dramatically since then due to the strong economy, the success of moving people from welfare to work, changes in eligibility rules, and other consequences of welfare reform. In 2001, food stamps is expected to serve approximately 17.5 million people at a cost of \$19.6 billion.

The Administration has taken a number of actions to simplify program administration for States, make the program more workable and easier for low-income working families to navigate, provide guidance to States on what their responsibilities are and how to improve practices, and use bonuses and sanctions to hold States accountable. In 1999 and 2000 the President took executive actions to help ensure working families who need food stamps have access, including: regulations to provide for transitional food stamp benefits for 3,000 individuals leaving TANF in 2001, with 20,000 individuals receiving assistance when fully implemented; longer reporting cycles for almost 200,000 individuals in 2001, with four million individuals benefitting when fully implemented; reviews of State processes to ensure that States comply with program rules; a public education campaign; and new steps that allow States to reinvest liabilities incurred due to high payment error rates in activities that improve access. In addition, a regulatory action making it easier for some recipients to own a car and still receive food stamps followed by legislation proposed by the Administration permitting States to use more generous TANF rules for vehicles when determining food stamp eligibility, in combination, will benefit 76,000 individuals in 2001, and when fully implemented, will benefit nearly 460,000 individuals, most of whom live in working families with children.

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC): WIC provides vouchers for nutritious supplemental food packages, nutrition education and counseling, and health and immuni-

zation referrals to low-income women, infants, and children. During this Administration, funding has grown by over 40 percent to over \$4 billion, and the program now helps nearly half of all infants. In 2000, approximately 7.2 million individuals participated in the program monthly and funding for 2001 is sufficient to support participation by just over 7.3 million people.

Income Assistance to Aged, Blind and Disabled Individuals: The Supplemental Security Income (SSI) program, administered by the Social Security Administration (SSA), provides benefits to needy aged, blind, and disabled adults and children. On average in 2000, 6.3 million individuals received Federal SSI benefits on a monthly basis. These benefits totaled \$31 billion in 2000. SSI uses the same disability eligibility criteria as the Social Security Disability Insurance Program. Policies affecting both programs are discussed in Chapter 15, "Social Security."

SSI Children: The 1996 PRWORA legislation created new eligibility criteria for children to receive SSI to ensure that only needy children with severe disabilities received benefits. Between 1990 and 1996, the number of children eligible for SSI benefits more than tripled from approximately 309,000 to more than 955,000. This growth was due, in part, to the difficulty in determining whether a child's impairment was of comparable severity to an impairment that would disable an adult. PRWORA eliminated this somewhat broader standard, and created a new definition of childhood disability that states a child's impairment, or combination of impairments, is considered disabling if it causes marked and severe functional limitations.

In February 1997, SSA published final interim rules that applied the new definition of disability to applicants as well as 288,000 child beneficiaries, approximately 100,000 of whom would ultimately lose coverage. To ease the transition for the families of these children, an Administration proposal was enacted to continue Medicaid coverage to children who lost their SSI benefits as a result of PRWORA. SSA has since identified ways to clarify the rules and simplify the processes. The final regulations went into effect on January 2, 2001.

Unemployment Compensation: Unemployment compensation, overseen by the Department of Labor's Employment and Training Administration, provides benefits to individuals who are temporarily out of work through no fault of their own and whose employer has previously paid payroll taxes to the program. State payroll taxes finance the basic benefits paid out of a dedicated trust fund. States set benefit levels and eligibility criteria; benefits are not means-tested and are taxable. Regular benefits are typically available for up to 26 weeks of unemployment. Additional benefits are often provided when unemployment is high and rising.

Spending on the unemployment compensation program varies based on economic conditions and demonstrates the Administration's success in achieving economic growth and low unemployment. In 1993, the unemployment rate was seven percent, and total spending on those benefits exceeded \$36 billion. By 2000, as a result of the strong economy and the wide availability of jobs, the unemployment rate was four percent and total spending on those benefits was less than \$22 billion—a decrease of almost 40 percent since 1993.

President Clinton worked to improve access to unemployment compensation to help new parents afford family leave. A Department of Labor regulation, effective in August 2000, allows States to create experimental birth and adoption unemployment compensation programs that provide partial wage replacement for parents caring for newborns and newly adopted children.

Addressing the Gaps in Welfare Reform

Restoration of Benefits for Legal Immigrants: The Administration believes that legal immigrants should have the same economic opportunity, and bear the same responsibility, as other members of society. Upon signing the 1996 PRWORA law, the President pledged to work toward reversing the cuts in benefits to legal immigrants that were unrelated to the goal of moving people from welfare to work. Since that time, the President's leadership has resulted in significant benefit restorations for immigrants.

More than half a million noncitizens would have been affected by PRWORA's Supplemental Security Income (SSI) eligibility restrictions in 2003. Legislation enacted after PRWORA restored eligibility to about three quarters of these individuals. The Balanced Budget Act of 1997 and the Noncitizens' Benefit Clarification and Other Technical Amendments Act of 1998 provided \$11.5 billion over five years to restore Medicaid and SSI to 380,000 disabled and elderly legal immigrants who were living in the U.S. when the welfare law was enacted on August 22, 1996. These restorations provided critical assistance to legal immigrants who were unable to work to support themselves.

PRWORA also made most immigrants ineligible for food stamps, an important source of nutrition assistance for many working families, as well as for those unable to work. PRWORA would have denied food stamp eligibility to almost 600,000 noncitizens in 2002. Legislation enacted after PRWORA restored eligibility to approximately 30 percent of these individuals. In response to the Administration's request, the Agricultural Research, Extension, and Education Reform Act of 1998 included \$818 million over five years to restore food stamp benefits to an estimated 175,000 elderly, disabled, and other needy immigrants, including 45,000 children who lawfully resided in the United States as of August 22, 1996.

These accomplishments restored important nutrition and income security protections to large categories of vulnerable noncitizens. Nevertheless, most noncitizen adults (except for refugees and certain other special categories of immigrants) are ineligible for food stamps unless and until they acquire 40 quarters of employment coverage, even if they have been in the U.S. since before enactment of PRWORA. With regard to SSI, similar restrictions apply to most noncitizens entering the U.S. after August 22, 1996. Immigrants entering the U.S. after that date also are banned from Medicaid until they have been in the United States at least five years, a provision that is expected to affect 430,000 immigrants in 2003.

Employee Retirement Benefits

Federal Employee Retirement Benefits:

The Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS) provide pension coverage for approximately 2.7 million active employees, and pay out benefits to about 2.4 million retired employees and survivors. Both systems provide a defined benefit pension. FERS employees (those hired since January 1, 1984) are also covered by Social Security and a defined contribution plan—the Thrift Savings Plan (TSP). CSRS employees may contribute to TSP but do not receive the automatic and matching agency contributions enjoyed by FERS enrollees. Since 1993, the number of annuitants (retired employees and survivors) has grown by 10 percent, from 2.2 million to 2.4 million, and the annuity payments have increased by over one-third, from \$35 billion to \$47 billion.

Over the past eight years, the service provided to this growing customer population has improved markedly. For example, in 1993 there was no self-servicing of customer service requests. This has increased to over 30 percent today. This improved service is being delivered more efficiently. For example, with fewer staff, processing times for annuity claims have been reduced substantially. This better and more efficient service is reflected in customer satisfaction surveys, which show an improvement from around 80 percent in 1993 to well over 90 percent today in annuitant satisfaction with the handling of service requests. Other notable accomplishments since 1993 include preserving the benefits structure during an extremely tight budgetary environment, providing through legislative action a more equitable treatment of employees placed in the wrong retirement system, and creating a greater incentive for employees to save by enabling them to contribute to the TSP immediately upon being hired.

Private Pensions: The Department of Labor's Pension Benefit Guaranty Corporation (PBGC) insures against company bankruptcy the pensions of about 42 million workers and retirees who earn defined benefit pensions. Before 1992, PBGC's books could not be audited. Worse, PBGC had for many years run an accounting deficit; that is, each year its liabilities

had exceeded its assets. After well-publicized bankruptcies in the airline and steel industries, PBGC had for some years been talked of as the next savings and loan crisis.

That situation has turned around. With improved internal controls, PBGC has received "clean" audit opinions since 1993. Primarily due to the Administration's 1994 law (the Pension Protection Act) that increased PBGC revenues and also due to improved economic conditions and fewer bankruptcies, PBGC has been running annual surpluses and is predicted to end 2001 at \$9 billion in the black. With its finances stabilized, PBGC is improving customer service. PBGC is working to shorten the time to calculate final benefit levels from six years in 1997 to three years in 2002. (Retirees are getting approximate pensions while PBGC is setting final benefit levels.)

Also at the Department of Labor, the Pension and Welfare Benefits Administration (PWBA) establishes and enforces safeguards to protect the roughly \$4 trillion in private pension assets. More than 90 million participants and beneficiaries are now in private pension plans.

PWBA is working to recover more benefits through customer assistance—an estimated \$54 million for 2001 compared to \$15 million in 1995. During this period PWBA corrected prohibited transactions and recovered or protected plan assets totaling more than \$1 billion. At the same time, PWBA is more speedily processing the exemptions that allow certain financial transactions that are needed by pension plans, reducing the time taken to 200 days in 2001, a 17 percent improvement from the 1999 average of 242 days. PWBA has, moreover, simplified the annual report (the Form 5500) filed by companies that sponsor pensions. PWBA has also sped the processing of this data, in order to move more quickly to protect pensions and to keep participants better informed about their pension assets.

Tax Incentives for Retirement Savings:

The Federal Government encourages retirement savings by providing income tax benefits to both individuals and companies. These tax benefits have been expanded and also simplified so that more companies can offer

pensions. The Administration developed the new SIMPLE pensions (Savings Incentive Match Plans for Employees), which is an easy way for companies to set up 401(k)-like retirement accounts for their workers. Generally, earnings devoted to workplace pension plans and to many traditional IRAs receive beneficial tax treatment in the year earned and ordinarily are taxed only in retirement, when lower tax rates usually prevail. Moreover, taxpayers can defer taxes on the interest and on the other gains that add value to these retirement accounts. The new Roth Individual Retirement Accounts (IRAs) however, allow contributions to be made from after-tax earnings, but account earnings are free from tax when used in retirement, which is a novel tax benefit.

President Clinton also signed into law expanded eligibility for deductible IRAs. So that more middle-income taxpayers with workplace retirement plans could open the valuable deductible IRAs, the Taxpayer Relief Act of 1997 generally doubled, over time, the income limits for participation. Previously, single taxpayers with adjusted gross incomes below \$25,000 could open full deductible IRAs, with the maximum size of the IRA phasing out until the income limit of \$35,000 was reached. Married taxpayers with joint returns

were eligible at higher income levels, with a phase-out range of \$40,000 to \$50,000. Under the new law, the IRA phase-out ranges increase until the eligibility limits are \$50,000 to \$60,000 for single taxpayers (2005 and thereafter) and \$80,000 to \$100,000 for couples filing jointly (2007 and afterwards). This law also greatly expanded (to \$150,000 to \$160,000) the deductible IRA income limit for taxpayers not in workplace retirement plans but whose spouses are. Another law increased the maximum size of spousal IRAs for non-working spouses.

Additionally, President Clinton succeeded in making IRAs more flexible through legislation enacted in the Health Insurance and Portability and Accountability Act of 1996. That law allows the long-term unemployed to make penalty-free withdrawals from IRAs in order to pay their health insurance premiums and also for large medical expenses.

All the pension and retirement-saving tax incentives amount to an estimated \$115 billion in 2001—decidedly the largest set of preferences in the income tax system—and nearly double the amount in 1993. Total tax expenditures included in this function have increased from \$74 billion in 1993 to an estimated \$132 billion in 2001.

15. SOCIAL SECURITY

Table 15-1. Federal Resources in Support of Social Security

(Dollar amounts in millions)

Function 650	1993 Actual	2001 Estimate	Percent Change: 1993–2001
Spending:			
Discretionary budget authority	2,640	3,447	31%
Mandatory outlays	301,986	431,406	43%
Tax expenditures	23,655	25,980	10%

When the Social Security Act was enacted in 1935, President Roosevelt envisioned a program that would eliminate the blight of poverty from the lives of elderly Americans and allow them to maintain their dignity and independence. While the original goal was to provide income insurance to protect workers upon retirement, the program has evolved over time to include spouses, dependents, survivors and disabled workers. The Old-Age, Survivors, and Disability Insurance (OASDI) programs, commonly known as Social Security, have met President Roosevelt's goal and are considered among the most successful domestic programs in our Nation's history.

The importance of Social Security has been emphasized throughout the Clinton-Gore Administration. This Administration helped the program serve today's population better, and took action to ensure that the program will remain strong to serve future generations. The President's balanced budget proposal for 1999 marked a turning point in that regard. Once this Administration had conquered the budget deficit, it set to work to solve the generational deficit—the budgetary pressure that was projected to result from the aging of the population, especially the baby boom generation.

In 1995, the Social Security Administration (SSA) became an independent agency, focused on building the public's confidence in Social Security by improving customer service, public

education, and program integrity. Since that time, the programs have strengthened the incentives for both retirement and disability beneficiaries to work.

The Role of Social Security

The OASDI programs are crucial to the economic well-being of tens of millions of Americans. Social Security will spend about \$434 billion in 2001 to provide more than 45 million beneficiaries with comprehensive protection against loss of income due to the retirement, disability or death of a worker. The Old-Age and Survivors Insurance program (OASI) insures retired workers and their eligible spouses, children, and survivors. In 2000, Social Security paid out almost \$289 billion to 31 million retired workers and dependent family members, and about \$59 billion in benefits to seven million survivors of deceased workers. The Disability Insurance program (DI) provides a similar type of insurance to workers who become disabled, and to their dependents. In 2000, Social Security paid over \$54 billion in benefits to more than six million disabled workers and family members.

The Government will collect an estimated \$512 billion in Social Security taxes in 2001. These taxes will be credited to the OASI and DI trust funds, along with almost \$60 billion of interest on Treasury securities held by the trust funds.

Many beneficiaries would face a high risk of poverty without the income protection provided by Social Security. When President Roosevelt signed Social Security into law, most seniors were poor. Since then, Social Security benefits have significantly improved the well-being of the Nation. The poverty rate among those 65 and older was 12.2 percent in 1993, and reached an all time low of 9.7 percent in 1999. Without Social Security, nearly half of older Americans would live in poverty.

Save Social Security First

Social Security's most important revenue source is the payroll tax. Currently, the Social Security trust funds are expected to run a cash surplus until 2015. Current economic and demographic forecasts indicate, however, that cash revenues will fall short of expenditures after that time, and the trust funds will exhaust their reserves in 2037 unless corrective action is taken. After 2037, payroll taxes are projected to cover 72 percent of benefits.

In an effort to find a long-term solution, President Clinton's 1998 State of the Union Address called for a commitment to "save Social Security first." The President was about to submit the first balanced budget proposal in almost 30 years, projecting that, with continued fiscal discipline, budget surpluses would continue for several decades. Rather than spend this surplus, the President proposed saving it until meaningful steps were enacted to preserve Social Security.

The President used 1998 to engage in a national discussion about Social Security reform. He led the way with a series of regional nonpartisan forums to build public awareness of the issues, and to build public consensus for action. The year-long national dialogue culminated with a White House Conference on Social Security.

The following year, the President proposed a program to save Social Security through a commitment to sustained fiscal responsibility. Rather than dissipate all of the currently projected on-budget surpluses on new spending or tax cuts, the President proposed a balanced approach to prepare the Nation for the challenges ahead by paying down

the entire debt held by the public by 2013 and by encouraging economic growth. The President's 2000 and 2001 Budgets outlined this approach, which proposed transfers to the trust funds approximately equal to the interest saved by dedicating the Social Security surpluses to debt reduction. The President's plan would extend the solvency of the trust funds to 2057.

The President's commitment to save Social Security first has driven the budget debate. Rather than dissipating all of the currently projected on-budget surpluses on new spending or tax cuts, the President has encouraged a balanced and bipartisan approach to prepare the Nation for the challenges ahead. The President's initiative in starting a conversation about Social Security led to a political imperative stronger than law; there now exists a broad consensus that fiscal responsibility requires that the Social Security surplus not be used to finance other activities or policies. By calling attention to this issue, the President helped to raise the bar of fiscal behavior in a fashion that will have enduring favorable consequences for the economy.

While the Administration's legislative proposal has not been enacted, his call to protect the Social Security surplus has become the basis for policy discussions in this area. The debate over fiscal policy in the near future will continue to be heavily influenced by this approach. This development, plus the expanded public consciousness and understanding of the Social Security issue that arose from the Administration's efforts, will contribute to budget and retirement policy in the coming years.

Changes to the Social Security Program

While the underlying principles of the Social Security program have remained the same, the program has continued to evolve to meet the needs of today's population. Since 1993 there have been numerous initiatives to strengthen Social Security and bolster public confidence in the programs, while making them more accessible and efficient. The changes also reflect shifts in public attitudes and technological advances.

The Social Security Administration: The Social Security Independence and Program Improvements Act was enacted in 1994. This law established the Social Security Administration as an independent agency within the executive branch as of 1995. Creating an independent SSA helped to streamline Government operations to serve the American people better, and reinforced the commitment to maintain the confidence of all Americans in the Social Security program.

During its six years as an independent agency, SSA consistently has earned high marks for its management, and for its strategic planning efforts that emphasize service and effective program administration. The 1999 Government Performance Project—an independent, comprehensive study of management performance conducted jointly by the Maxwell School of Citizenship and Public Affairs at Syracuse University and *Government Executive* magazine—ranked SSA at the top of 15 Federal Government agencies. The project gave SSA an overall grade of “A,” and highlighted SSA’s “stellar service” and use of technology to improve transactions with its customers and employees. SSA was also one of the first organizations to recognize the potential information system difficulties related to the year 2000, and was the first agency to be fully prepared.

In addition to administering the Social Security programs, SSA also runs the Supplemental Security Income (SSI) program for low-income aged, blind and disabled individuals, which is discussed in Chapter 14, “Income Security.” In addition, the agency provides services that support the Medicare program on behalf of the Health Care Financing Administration.

Work Incentives: In 1993, the Administration made a commitment to a 21st Century vision of America, with opportunity and responsibility for all American citizens. Part of this vision included rewarding work throughout an individual’s life cycle, even if the individual is over the traditional retirement age of 65 or has a disabling impairment. Administration proposals laid the foundation for this vision.

- **Eliminating the earnings test for those over the normal retirement age.**

The Social Security system was designed to encourage older Americans to retire by withholding benefits from workers over the normal retirement age (currently age 65). This was during the Great Depression, when young workers with families faced an economy with a 25-percent unemployment rate. Today, the unemployment rate is about four percent. One in four Americans between 65 and 69 has at least one part-time job, and 80 percent of baby boomers intend to work past age 65.

In 1993, retirement beneficiaries under the age of 70 faced the possibility of losing some or all of their Social Security benefits if they were working. Recognizing the changes in the labor force and work preferences, the Administration worked with the Congress to raise the level of allowable earnings for individuals between the normal retirement age and 69. The Senior Citizens’ Right to Work Act, enacted in 1996, would have gradually increased the retirement earnings test level over a seven-year period. However, by 2000, with a balanced budget and a projected surplus, the Administration signed the Senior Citizens’ Freedom to Work Act, which eliminated the retirement earnings test for individuals between the NRA and 69. This law benefitted the 800,000 older working Americans who received reduced benefits, and also encouraged countless more to seek work.

- **Encouraging individuals with disabilities to return to work.** Both the DI and SSI programs also evolved to reflect changes in the economy, demographics, technology, medicine, and other areas. Many beneficiaries with disabilities, for example, want to be independent and to work—and with the appropriate support, they can achieve these goals.

Legislative Initiatives. The Administration strongly advocated for and the President signed the Ticket to Work and Work Incentives Improvement Act of 1999 to help disability beneficiaries enter or return to the work force. Specific to SSA, this law expands beneficiaries’ choices of employ-

ment service providers, extends Federal health benefits for beneficiaries who return to work, and authorizes SSA to carry out demonstration projects to identify effective ways to help disabled beneficiaries return to work.

Executive Initiatives. In 1999, the President supported SSA's proposal to increase the amount an individual can earn and maintain eligibility for disability benefits to \$700 from \$500 a month, the level at which it had been fixed since 1990. To ensure that the measure keeps pace with the economy, the President further directed that, beginning in 2001, this amount will be annually indexed to average wages. Also in 2001, the amount an individual can earn during a "trial work period" month (a month during which disabled beneficiaries can test their ability to work without affecting their benefits) will increase from \$200 to \$530, and it will be indexed to average wages in subsequent years. This amount also had been fixed since 1990.

Public Education and Customer Service:

The Vice President's National Partnership for Reinventing Government designated SSA, as one of the 32 agencies that deal directly with the public, as a High Impact Agency. As a High Impact Agency, SSA made a commitment to achieve a number of significant concrete measurable goals regarding public understanding of its programs, customer service, and efficiency.

As part of this effort, SSA conducted a survey to measure the public's baseline level of knowledge of Social Security programs. In 1998, only 55 percent of the public was generally knowledgeable about Social Security programs and had a basic understanding of the program concepts. SSA's current goal is that by 2005, nine out of 10 Americans (age 18 and over) will be knowledgeable about Social Security programs.

- **Social Security Statements.** Another of SSA's commitments was to improve the public's understanding of how Social Security affects their lives. In 2000, to reach America's work force, SSA launched the largest customized mailing ever under-

taken by a Federal agency, sending Social Security Statements to approximately 133 million workers age 25 and older who are not receiving Social Security benefits. This annual mailing provides a clear statement of the individual's earnings history and an estimate of his or her future benefits, as well as program information and a summary of the long-term financial challenges the program faces.

- **Social Security Online.** In 1994, SSA launched its web site, Social Security Online (www.ssa.gov). Since that time, SSA has expanded its web site to serve the public better. For example, Social Security Online provides "pamphlets" on programs and services, a "benefits planner" to assist in financial planning, reports and studies, a field office locator, and answers to frequently asked questions. Via Social Security Online, individuals also can apply for retirement benefits and replacement Medicare cards, download selected forms, submit inquiries to SSA, and subscribe to the electronic monthly newsletter, "e-News." SSA estimates 15 million individuals were attracted to its web site in 2000, up from 22,000 just six years ago.
- **Payment Cycling.** In 1997, SSA began "payment cycling" to pay new beneficiaries on one of three Wednesdays during the month, instead of paying all beneficiaries on the same day of the month. This balanced the distribution of Social Security payments and workload throughout the month, enabling SSA to maintain quality public service to a growing beneficiary population.
- **Improved Disability Adjudication Process.** SSA also committed to streamline its processes, especially disability claims processing and appeals. Disability claims determinations are very complex and time consuming. SSA currently is testing a streamlined disability eligibility determination process on a prototype basis in 10 States. SSA's Office of Hearings and Appeals is also implementing changes to improve efficiency and reduce case processing times.

Program Integrity

SSA is committed to ensuring that eligible individuals receive benefits, and that they are paid the correct amount. SSA is also committed to ensuring that only eligible individuals receive benefits. To improve the integrity of its programs, SSA improved its data collection, entered into data sharing agreements with other agencies or institutions when appropriate, and expanded its debt collection tools, among other efforts. One of the Administration's most cost-effective initiatives was improving its continuing disability review (CDR) program. Regularly scheduled disability reviews, which may be a questionnaire or a full medical review, are among SSA's most effective mechanisms for determining whether its disability beneficiaries maintain program eligibility.

In the early 1990s, a large backlog of CDRs built up, due to an unprecedented increase in initial disability claims workloads and a decline in the number of CDRs processed. In 1993, SSA conducted only 48,000 CDRs, as it directed its efforts toward developing and introducing a more efficient CDR questionnaire process. In 1996, the Adminis-

tration and the Congress worked together to provide dedicated resources for SSA to conduct more than eight million CDRs, to eliminate its backlog and maintain current workloads. The agency is on target for meeting this goal. In 2000, SSA invested \$605 million to conduct more than 1.8 million CDRs. SSA estimates approximately \$6 in savings for every \$1 in costs over the lifetime of this initiative.

Tax Expenditures

Social Security recipients pay taxes on their Social Security benefits only when their overall income, including Social Security, exceeds certain income thresholds. The exclusion of Social Security income below these thresholds reduces total income tax revenue by an estimated \$26 billion in 2001.

Deficit reduction legislation in 1993 raised the maximum portion of retirement benefits that could be subject to taxation from 50 percent to 85 percent. All of the revenue from this change in the taxation of Social Security benefits is transferred to improve the solvency of the Medicare Hospital Insurance Trust Fund.

16. VETERANS BENEFITS AND SERVICES

Table 16-1. Federal Resources in Support of Veterans Benefits and Services

(Dollar amounts in millions)

Function 700	1993 Actual	2001 Estimate	Percent Change: 1993–2001
Spending:			
Discretionary budget authority	16,235	22,512	39%
Mandatory outlays	19,848	22,918	15%
Credit Activity:			
Direct loan disbursements	2,211	1,709	–23%
Guaranteed loans	35,434	29,548	–17%
Tax expenditures	1,980	3,490	76%

The Federal Government provides benefits and services to veterans and their survivors of conflicts as long ago as the Spanish-American War and as recent as the Gulf War, recognizing the sacrifices of wartime and peacetime veterans during military service. The Federal Government spends over \$45 billion a year on veterans benefits and services, and provides over \$3 billion in tax benefits to compensate veterans and their survivors for service-related disabilities; provides medical care to veterans including lower-income and disabled veterans; and helps returning veterans prepare to reenter civilian life through education and training. In addition, veterans benefits provide financial assistance to needy veterans of wartime service and their survivors. Along with direct Federal funding, certain tax benefits help veterans. The law keeps all cash benefits that the Department of Veterans Affairs (VA) administers (i.e., disability compensation, pension, and Montgomery GI Bill benefits) free from tax.

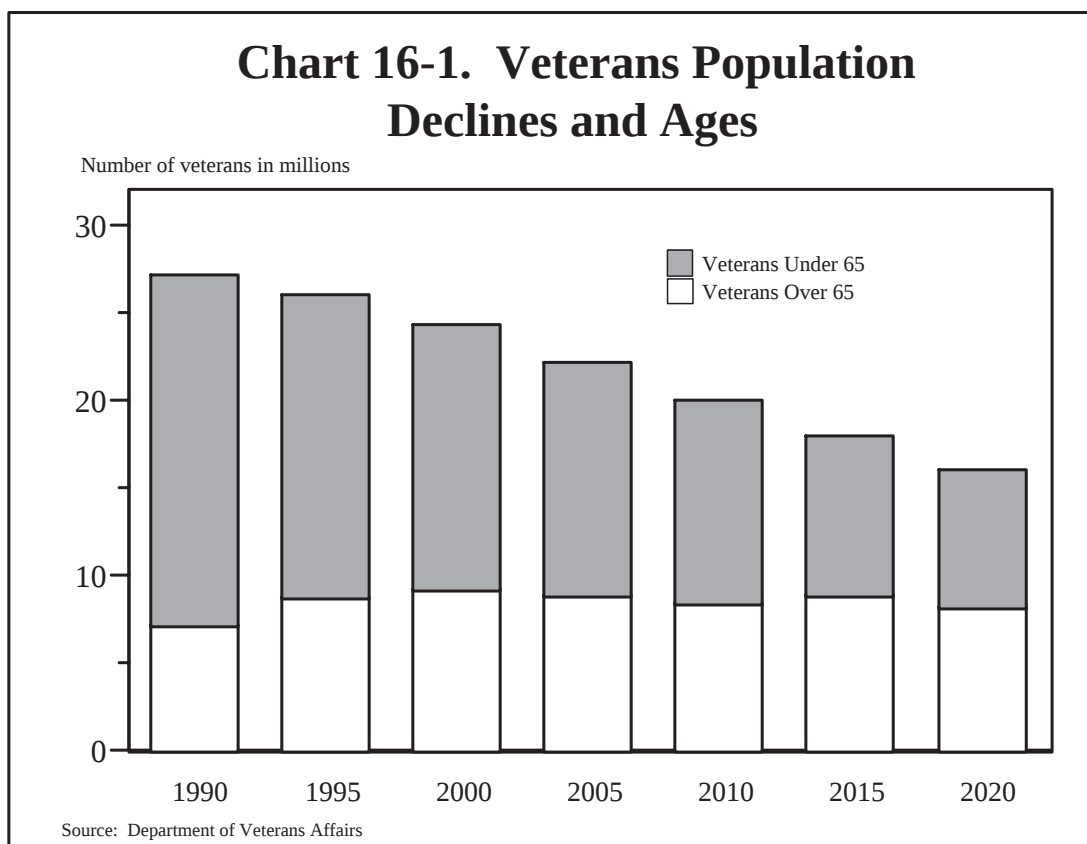
About seven percent of veterans are military retirees who can receive either military retirement from the Department of Defense (DOD) or veterans benefits from the VA. Active duty military personnel are eligible for veterans housing benefits, and they can contribute to the Montgomery GI Bill (MGIB)

program for education benefits that are paid later. VA employs 21 percent of the Federal Government's non-DOD civilian work force—approximately 220,000 people, about 195,000 of whom deliver or support medical services to veterans.

The veteran population continues to decline and age (see Chart 16-1). These demographic shifts result in changes in the types of benefits and services needed by veterans. Further, as technology improves, access to, and the quality of service improves.

Veterans Health Administration (VHA)

Over the last eight years, VA has undergone sweeping reform that enabled its health care delivery system to provide medical care in a more efficient, outpatient-oriented system emphasizing continuity of care. VA provides health care services to 3.5 million veterans through its national system of 22 integrated health networks, consisting of 172 medical centers, 766 ambulatory clinics, 134 nursing homes, 40 domiciliaries, and 206 veteran centers. VA is an important part of the Nation's social safety net because over half of its patients are lower-income veterans who might not otherwise receive care. It also is a leading health care provider for veterans with substance abuse problems, mental illness, HIV/AIDS, and spinal cord injuries



because private insurance usually does not fully cover these conditions.

Despite obstacles, VHA has dramatically transformed itself into a more efficient health care provider, with increased emphasis on quality and continuity of care. Early in the Clinton-Gore Administration, VHA began realigning 172 separate hospital campuses into 22 Veterans Integrated Service Networks (VISNs). This reorganization provided a new framework for management and change. The 22 network directors were empowered and held accountable to provide improved access and quality to needed health care services, while eliminating redundancy. In 1996, the Administration worked with the Congress to enact the Eligibility Reform Act. This allowed for the dramatic modernization of the system by allowing VA to treat patients in the most appropriate care setting, prioritizing veterans for eligibility, and allowing liberal contracting and sharing authorities (e.g., VA provides medical care services to

DOD active duty military on a contract basis). Prior to eligibility reform, VA had to provide care as defined in statute. In many cases, it could only provide care on an inpatient basis. This requirement proved to be extremely costly, inefficient, and burdensome to VA and its veteran patients. Even simple procedures were being performed in hospitals. The shift from inpatient to outpatient care has allowed VHA to evolve into a more responsive health care delivery system.

Under this Administration, VA has aggressively shed unnecessary personnel and replaced them with direct patient care services, expanded contract services and sharing agreements, and centralized procurement to capitalize on its buying power. In addition, VA has implemented national pharmaceutical formularies, realigned clinical support services, and consolidated, privatized, or franchised some ancillary services, such as laundry,

food preparation, payroll/human resource administration, and fire protection.

VA's quality of care, based on industry standards, is very high and continually improving. VA has become a leader in such patient-safety techniques as bar-coding, which ensures that patients receive the correct drugs, and a comprehensive medical-error reporting system that helps find common errors and develop prevention processes. Over the last four years, VA has completely shifted to coordinated care by establishing clinical teams—consisting of physicians, nurses, pharmacists, etc.—to provide care in a more consistent and thorough manner. Prior to 1997, patients were randomly assigned to available medical staff. Today, each veteran is assigned to a team and continually sees the same providers, improving continuity of care and patient satisfaction.

VA also formed partnerships with the National Committee on Quality Assurance, the American Hospital Association, the American Medical Association, the American Nurses Association, and other national associations to ensure quality patient care. The Chronic Disease Care Index measures VA physicians' adherence to established industry practice guidelines for key diseases affecting veterans. It has increased from 44 percent to 90 percent over the past six years. Similarly, the Prevention Index measures adherence to disease prevention and screening guidelines and has seen an increase from 34 percent to 81 percent over the past six years.

In summary, the reengineering of VA health care has resulted in significant reductions in the cost per patient while quality of care increased. This included restructuring veterans' health care to include the organizational, financial, and management change associated with the VISNs, shifting care to more appropriate care settings with an emphasis on primary care, and implementing clinical and administrative efficiencies including consolidations and integrations. More specifically, since 1993:

- patients treated per year increased by over 35 percent (from 2.8 to 3.8 million). Further, 107 percent more homeless patients were treated in 2000 compared to 1993;

- annual inpatient admissions decreased 38 percent (317,688 fewer admissions) by 2000 while ambulatory care visits increased by 56 percent to 39.3 million (14.1 million increase);
- approximately 1,300 sites of care delivery have been organized under 22 Veterans Integrated Service Networks; and,
- over 350 new community-based outpatient clinics have been established.

Veterans Benefits Administration (VBA)

VBA processes veterans' claims for benefits in 57 regional offices across the country. These benefits include compensation for service-connected disabilities, pensions for low-income veterans, vocational rehabilitation, education, home loans, and life insurance. Since 1993, VBA has realigned 57 regional offices into nine service delivery networks. It has established nine Regional Loan Centers for housing loans and four Regional Processing Offices for education claims in an effort to improve efficiency and quality of services to its customers. VBA has also taken steps to integrate information technology into claims processing to improve timeliness and quality of service delivery. It has also implemented a "balanced scorecard," a tool that has helped management to weigh the importance of and measure progress toward meeting VBA's strategic goals, which include:

- improving responsiveness to customers' needs and expectations;
- improving service delivery and benefit claims processing; and,
- ensuring best value for the available taxpayers' dollar.

VBA monitors its performance in awarding disability benefits claims through measures of accuracy, customer satisfaction, processing timeliness, and unit cost.

Disability Compensation: Veterans with disabilities resulting from, or coincident with, military service receive monthly compensation payments based on the degree of disability. The payment does not depend on a veteran's income or age or whether the disability is the result of combat or a natural-life affliction. It does depend, however, on the average decline

in earnings capacity that the Government presumes for veterans with the same degree of disability. Survivors of veterans who die from service-connected injuries receive payments in the form of dependency and indemnity compensation. Compensation benefits are indexed annually by the same cost-of-living adjustment as Social Security. While the veteran population is declining, the compensation caseload is currently remaining relatively constant due to changes in eligibility, better outreach efforts, and increasingly complicated disabilities as veterans age.

Since 1993, compensation benefits have been expanded for Gulf War- and Vietnam-era veterans. Initially, VA established six “presumptive” service-connected disabilities for Vietnam veterans for herbicide exposure under the Agent Orange Act; there are currently nine presumptive conditions. The development of presumptive disabilities makes it easier for disabled veterans to obtain compensation benefits by eliminating the burden to prove that the disabling event occurred during military service. In 1994, VA designed and implemented criteria for the first time to compensate veterans with chronic disabilities resulting from undiagnosed illnesses (otherwise known as Gulf War Syndrome). In 1997 and 2000 respectively, the Administration worked with the Congress to impart monetary benefits, health care, and vocational rehabilitation to the children of Vietnam veterans who suffered from spina bifida or birth defects—extending benefits to children for the first time.

Education Benefits: The Government originally created the MGIB as a test program, with more generous benefits than the post-Vietnam-era education program, to help veterans move to civilian life and to help the Armed Forces with recruitment. Service members who choose to enter the program have their pay reduced by \$100 a month in their first year of military service. VA administers the program and pays basic benefits once the service member becomes eligible. Since 1994, the benefit automatically increases each year

in relation to the general inflation rate. Moreover, the Veterans Benefits and Health Care Improvement Act of 2000 allows service-members to increase their benefits by up to \$150 over the basic monthly amount by contributing an additional \$600.

MGIB beneficiaries receive a monthly check based on whether they are enrolled as full-time or part-time students. They can get 36 months worth of payments, but they must certify monthly that they are in school. DOD may provide additional benefits to help recruit certain specialties and critical skills. The MGIB also provides education benefits to members of the Selected Reserves. DOD funds these benefits, and VA administers the program. Over 90 percent of MGIB beneficiaries use their benefits to attend a college or university. Basic benefits available now total over \$23,400 per recipient, compared to \$12,600 in 1992 (an 86-percent increase).

National Cemetery Administration (NCA)

VA provides burial in its national cemeteries for eligible veterans, active duty military personnel, and their dependents. VA manages 119 national cemeteries across the country. In addition, VA has jointly funded 47 State veterans cemeteries through its State Cemetery Grants Program. Since 1993, NCA has expanded service by opening five new national cemeteries (Kent, Washington; Schuylerville, New York; Elwood, Illinois; Dallas, Texas; Rittman, Ohio), provided grants to States to establish 25 new State veteran cemeteries, and acquired 3,000 acres of land to meet burial demands. NCA improved service by installing 24 information kiosks and by encouraging non-VA national and State veterans cemeteries to place headstone orders online. In addition, VA will establish six additional national cemeteries in areas of the United States in which the need for burial space is greatest. Those areas are: Atlanta, Georgia; Detroit, Michigan; Miami, Florida; Sacramento, California; Pittsburgh, Pennsylvania; and, Oklahoma City, Oklahoma.

17. ADMINISTRATION OF JUSTICE

Table 17-1. Federal Resources in Support of Administration of Justice
(Dollar amounts in millions)

Function 750	1993 Actual	2001 Estimate	Percent Change: 1993–2001
Spending:			
Discretionary budget authority	14,613	29,982	105%
Mandatory outlays	302	672	123%

The Clinton-Gore Administration pursued successful initiatives to reduce crime and improve the Nation's legal system: the Community Oriented Policing Services Program; reform of the Immigration and Naturalization Service; strengthening firearms enforcement; reducing juvenile crime, especially gun-related violence; preventing terrorism; combating drug use; and, protecting all Americans by supporting increases for civil rights enforcement, the Legal Services Corporation, and Violence Against Women Act programs.

In 2001, the Federal Government will expend almost \$30 billion in discretionary budget authority on the administration of justice—including law enforcement, litigation, judicial and correctional activities—more than double the amount spent in 1993, and an 80-percent increase in constant dollars terms. Total Federal, State, and local resources devoted to the administration of justice have grown by 80 percent, from \$98 billion in 1993 to an estimated \$175 billion in 2001 (see Chart 17-1), a 55-percent increase in constant dollars terms. While States and localities bear most of the responsibility for fighting crime, the Federal Government plays a critical role, both in supporting State and local activities and investigating and prosecuting criminal acts that require a Federal response.

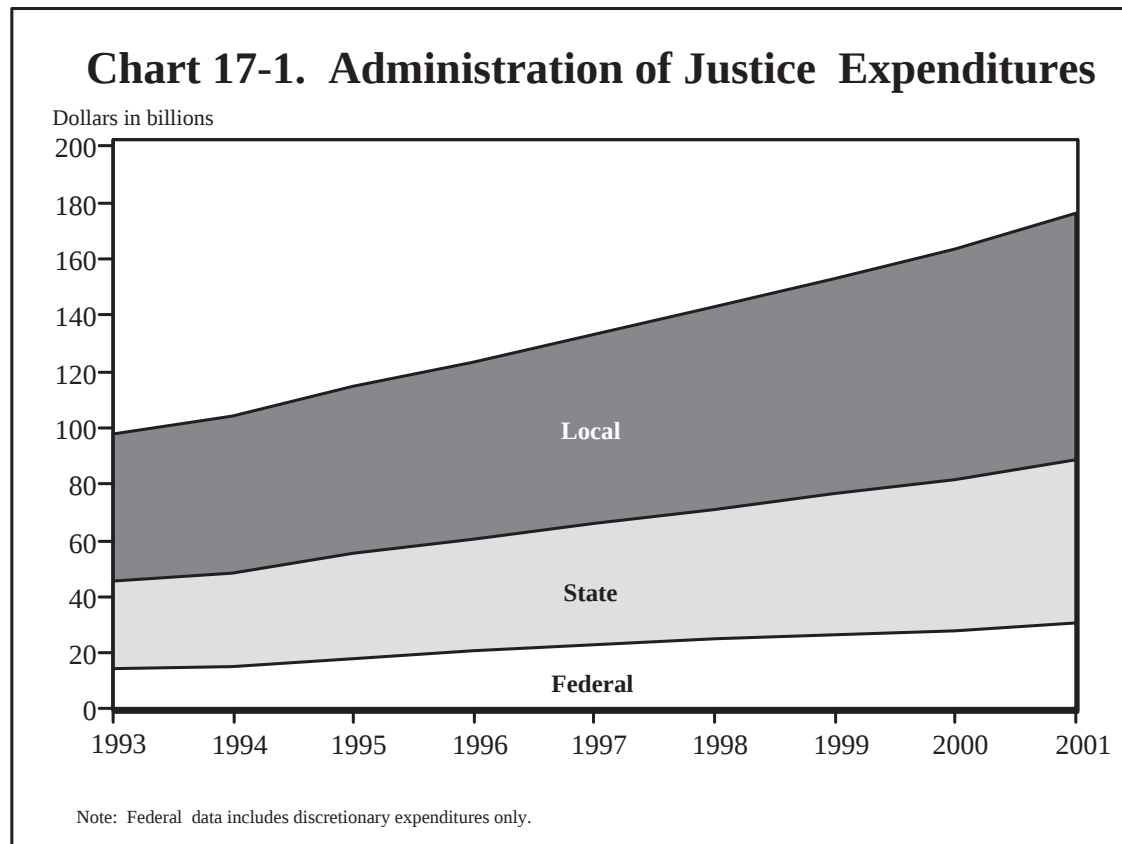
Although crime is affected by varying factors, the fact that the national crime rate has dropped at the same time that Federal

anti-crime spending has increased suggests a causal relationship. Representing the lowest annual serious crime count since 1985, the 1999 Crime Index total was estimated at approximately 11.6 million offenses. Down 19 percent from 1992, this represented the eighth consecutive annual decline in the Crime Index.

Funding for the administration of justice function includes: (1) law enforcement; (2) litigation and judicial activities; (3) correctional activities; and, (4) criminal justice assistance to State and local entities. Discretionary budget authority for law enforcement is still the largest portion of this funding (42 percent) in 2001. However, the most dramatic change since 1993 has been in criminal justice assistance, which has grown 458 percent, an average increase of 24 percent per year (see Chart 17-2).

Law Enforcement

Department of Justice (DOJ): The Department of Justice represents 70 percent of total Federal spending for law enforcement, enforcing diverse Federal laws dealing with national security, terrorism, illegal immigration, violent crime, drug smuggling, white collar crime, and many other criminal acts. In carrying out these activities, DOJ works closely with other Federal agencies, and with State and local law enforcement agencies, often through joint task forces.



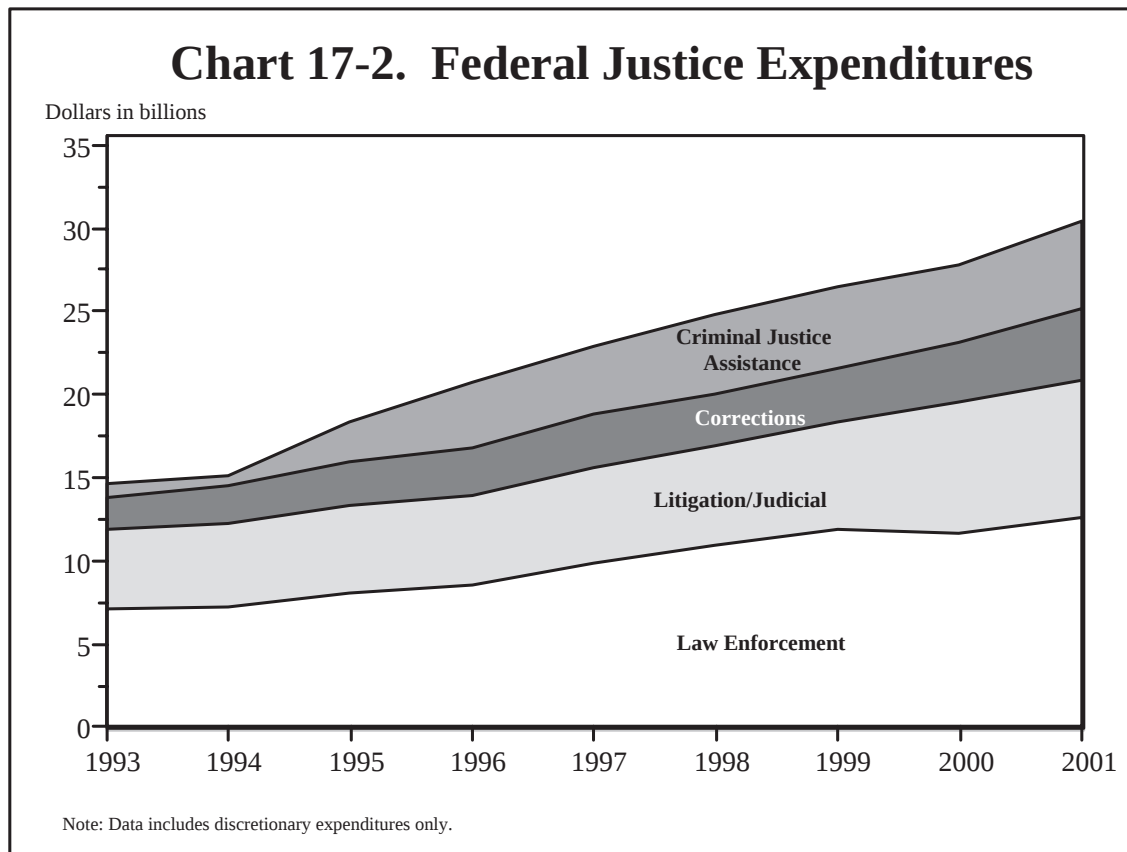
- *National Security and Terrorism:* Since 1993, DOJ, with strong support from the Administration and the Congress, has acted aggressively to prevent, mitigate, and investigate acts of terrorism, including the use of weapons of mass destruction and the emerging threat of cybercrime. The Department spent \$782 million in 2000 to combat terrorism, primarily in the FBI (\$467 million) and the Office of Justice Programs (\$152 million).

The FBI has primary responsibility for preventing domestic acts of terrorism. If an incident should occur, it is the lead investigative agency. The FBI also has developed the capacity to mitigate and investigate cyber attacks against the Federal Government, the Nation's critical infrastructure, and American businesses. The Criminal Division within DOJ provides prosecutive assistance for all terrorist incidents, including cyberterrorism, serving as

a focal point for such efforts at all levels of law enforcement.

The Nation must be prepared to deal with terrorist events involving the use of weapons of mass destruction, such as biological, chemical, or nuclear weapons. State and local public safety agencies would be responsible for managing the consequences of such incidents if they should occur. DOJ and other Federal agencies support the necessary training and equipping of the State and local agencies to ensure their readiness. The FBI houses the National Domestic Preparedness Office, which coordinates all Federal programs supporting State and local "first responders."

- *Immigration Enforcement and Services:* DOJ's Immigration and Naturalization Service (INS) protects the U.S. borders from illegal immigration while providing services to legal aliens. To keep pace with one of the busiest periods of immigration-



related activity in the Nation's history and to meet the expanded scope and complexity of the INS mission, the Administration and the Congress increased the agency's budget by more than 180 percent, from \$1.5 billion in 1993 to \$4.3 billion in 2000. Staffing levels grew at a similar pace, with INS adding 15,200 employees since 1993, for total agency staffing level of 32,000 in 2000.

From 1993 through 2000, the INS received nearly 6.9 million applications from immigrants who applied for citizenship—more than the total in the previous 40 years combined. By 1998 the backlog of naturalization applications had grown to more than 1.8 million and processing time was over 27 months. In response, the Administration provided additional resources, streamlined the process, ensured dedicated leadership and measured performance. By the end of 2000, the application backlog was below one million for the first time

in four years and INS had achieved its citizenship processing time goal of six to nine months while maintaining high levels of integrity.

INS achieved dramatic results in stemming the flow of illegal aliens into the U.S. by following an aggressive border management strategy that combined additional Border Patrol agents, technology and border barriers. From 1993 to 2000, INS increased the number of Border Patrol agents by 132 percent from 3,965 to over 9,200 agents. These agents improved the quality of life in border communities through targeted enforcement operations.

—Operation Gatekeeper reduced illegal entries along the San Diego border to their lowest level in 25 years and contributed to a 34-percent drop in overall crime rates in the San Diego area. Once the busiest illegal crossing area in the Nation, San Diego Chief of Police David

Bejarano stated that after Operation Gatekeeper San Diego "... is without question the quietest and safest the border has ever been in this area." Similar results were achieved through targeted INS enforcement operations in select locations in Texas, Arizona, and New Mexico.

- Every year since 1993, INS has set new records for the incarceration and removal of illegal aliens, restoring credibility to the Nation's immigration laws. Preliminary figures for 2000 show 181,572 removals, more than a quadrupling of the 1993 number. Much of this growth is attributable to the dramatic rise of criminal removals in cooperation with other law enforcement agencies, which reached over 69,000 in 1999—more than 20 times the number in 1993.

Department of the Treasury: Within the Department of the Treasury, the U.S. Customs Service, Bureau of Alcohol, Tobacco and Firearms (ATF), U.S. Secret Service, and other bureaus enforce laws related to drug and contraband at our borders; commercial fraud; firearms trafficking; arson and explosives crimes; and financial crimes, including money laundering, counterfeiting, and credit card fraud. In addition, the U.S. Customs Service regulates the importation and exportation of goods; ATF regulates and enforces criminal laws pertaining to alcohol, tobacco, firearms, and explosives; and the Secret Service protects the President, Vice President, and visiting foreign dignitaries. The Federal Law Enforcement Training Center provides basic and advanced training to Treasury and other law enforcement personnel. The Financial Crimes Enforcement Network supports law enforcement agencies in the detection, investigation and prosecution of domestic and international money laundering. In addition, DOJ and Treasury have annually submitted to the Congress two strategies for combating money laundering as required by the Money Laundering and Financial Crimes Strategy Act of 1998.

During the last eight years, the Treasury Department's law enforcement bureaus have:

- successfully met the challenge of dramatically increased import levels due to the

implementation of the North American Free Trade Agreement (10.6 million formal and informal entries in 1993 as compared to 21.4 million in 1999);

- achieved a trade compliance level of 83 percent for all imported goods, a revenue collection compliance rate of 98.8 percent, and began development and implementation of the Automated Commercial Environment (ACE), an automated import system designed to effectively process an ever increasing volume of trade, in accordance with regulations of the 1993 Customs Modernization Act; and,
- maintained law enforcement capabilities in a rapidly changing technological environment, such as the use of encryption by criminals and the introduction of digital communications equipment and Internet communications impervious to traditional court-approved wiretaps.

Gun Violence Prevention Efforts: To address the continuing problem of gun violence, the Administration has sought to improve enforcement of firearms laws and aggressively implement provisions of the Brady Act. Keeping guns out of the hands of criminals has made America's streets safer. Since 1993, the number of crimes committed with firearms has declined by 35 percent.

- DOJ, working with the States, is now conducting computerized background checks on all firearm purchases. As of 1999, the Instacheck system has been used to block more than 611,000 illegal gun sales since the program was implemented;
- The ATF has invested in the development and dissemination of investigative information, including tripling the number of crime gun traces from 79,191 in 1994 to 225,000 in 2000, establishing a ballistics information system, efficiently providing follow-up analysis of Brady background check information, and establishing regular reporting of national and local crime gun information to assist law enforcement agencies and the firearms industry;
- The Treasury Department also provides firearms expertise and technical assistance to State and local law enforcement, the U.S. Attorneys Office and local prosecutors

to craft solutions responsive to the specific needs of each community such as the Boston Gun Project/Boston Ceasefire and Project Exile in Richmond.

Federal Drug Control Activities: The Office of National Drug Control Policy established a comprehensive, 10-year National Drug Control Strategy that incorporated aggressive societal goals for anti-drug programs. Achieving these goals depends not only on the Federal Government, but on State, local, and foreign governments, the private sector, religious institutions and not-for-profit agencies, and on the behavior of individuals. Although some progress has been realized, particularly among high school age youth, drug use in the United States remains unacceptably high and imposes substantial costs on society. Recent accomplishments in this area include:

Overall drug use in the United States is substantially below the level found 20 years ago. The number of current users of illicit drugs has dropped from 14.1 percent to 6.7 percent of the population over the age of 12. Most of this change occurred before 1988, and since that year the rate of overall drug use remained statistically unchanged.

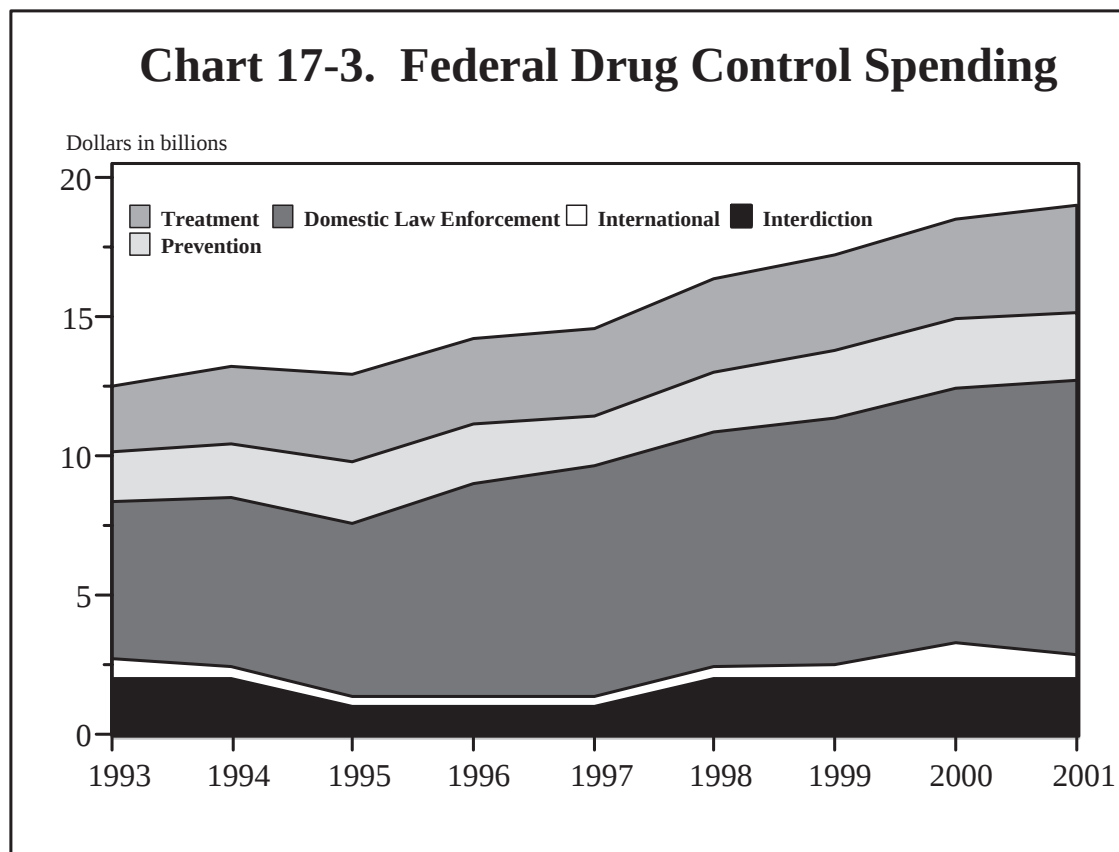
- Drug use among youth has declined by more than one-third (37 percent) since 1979. More recently, reported levels of drug use increased during the 1990s, starting in 1992, and continued to increase until 1997. The rate of current use of any illicit drug among 12–17 year-olds declined 21 percent between 1997 and 1999, the first statistically significant drop in four years.
- A decline in the perceived risk of harm from the regular use of marijuana among students in high school and junior high school, which began in the early 90s, has stopped, and in some cases perceptions of risk may be increasing. Among 8th grade students surveyed in 2000, about 75 percent believe there is a great risk of physical or other harm from regular use of marijuana, an increase of 4 percent since 1996. Among 10th graders, about 65 percent perceive such a risk, essentially the same level as the past four years. Among 12th grade students, 58 percent reported

believing regular marijuana use presents a great risk, compared to 60 percent in 1996.

- An ambitious, comprehensive communications strategy that uses a variety of media and messages to educate and encourage youth to reject illicit drugs has been implemented. This Youth Anti-Drug Media Campaign is a research-based program developed by experts in behavior change, drug prevention, teen marketing, advertising and communications, and representatives from professional, civic, and community organizations. A recent survey of teenagers and their parents found that 90 percent of both groups recalled seeing at least one Campaign-funded ad in the prior month.

In 2001, \$19.2 billion was appropriated for Federal drug control programs administered by approximately 50 Federal agencies, representing about 1 percent of the total Federal budget and about 3 percent of all discretionary funds. The amount appropriated for Federal drug control programs has increased by \$6.5 billion, or 51 percent, since 1992. Chart 17–3 depicts annual Federal funding for the five major types of drug control activities. The total for 2000 includes the \$1.3 billion Plan Colombia program discussed in Chapter 3, “International Affairs.”

Civil Rights Laws: Federal responsibility for enforcing civil rights laws that provide protections from discrimination on the basis of race, color, religion, gender, national origin, disability, age, and marital status is accomplished by several principal agencies, including the Civil Rights Division of the Department of Justice, the 94 U.S. Attorneys offices, the Equal Employment Opportunity Commission (EEOC), and the Department of Housing and Urban Development (HUD). The Civil Rights Division has primary litigation authority for the enforcement of the Civil Rights Act of 1964, the Voting Rights Act of 1965, the Fair Housing Act, the Equal Credit Opportunity Act, the Freedom of Access to Clinic Entrances Act, and a number of criminal and civil statutes, including laws prohibiting police misconduct. HUD enforces laws that prohibit discrimination in the sale or rental, provision of brokerage services, or financing of housing.



The EEOC enforces laws that prohibit employment discrimination.

- Over the past eight years, approximately 400 defendants were prosecuted and convicted on Federal hate crime charges for interfering with federally protected rights of African American, Latino, Native American, and Jewish victims. In 1996, following a rash of fires at churches in the South, the President and Attorney General created the National Church Arson Task Force. Co-chaired by the Assistant Attorney General for Civil Rights, the inter-agency task force opened nearly 1,000 investigations into arson, bombings at our Nation's houses of worship and prosecuted more than 300 defendants.
- To reduce its backlog, in the past decade the EEOC has implemented changes to speed processing, notably through the prioritization of charges and greater use of mediation services. By the end of 1999,

the EEOC had reduced its private-sector backlog to just over 40,000 complaints, a 15-year low.

- During this Administration, HUD's Office of Fair Housing and Equal Opportunities doubled the number of enforcement actions brought against perpetrators of housing discrimination. HUD is now achieving a rate of 60 to 70 enforcement actions a month, compared with 25 to 30 enforcement actions during the Administration's first term.
- The Administration fought vigorously, but unsuccessfully, to expand the Federal Government's ability to combat hate crimes by removing jurisdictional obstacles and by giving Federal prosecutors the ability to prosecute hate crimes based on sexual orientation, gender, or disability, along with those based on race, color, religion, and national origin.

Table 17-2. Civil Rights Enforcement Funding

(Budget authority, in millions of dollars)

	Actual		2001 Enacted
	1999	2000	
Equal Employment Opportunity Commission	279	281	304
Justice: Civil Rights Division	69	82	92
Education: Office for Civil Rights	66	71	76
Labor: Federal Contract Compliance	65	73	76
Housing and Urban Development: Fair Housing Activities			
Grants	40	44	46
Health and Human Services: Office for Civil Rights	21	23	28
Agriculture: Civil Rights Programs	5	18	20
Transportation: Office of Civil Rights	2	7	8
Labor: Civil Rights Center	5	6	6
Environmental Protection Agency: Office of Civil Rights	3	5	5
Total	555	610	661

Litigation and Judicial Activities

Department of Justice: United States Attorneys offices are the chief prosecutive arm of the Federal Government within their judicial district and are responsible for the majority of criminal and civil litigation for the United States. Each U.S. Attorney's office is responsible for investigating and prosecuting alleged violations of Federal law brought to their attention by Federal, State, and local law enforcement agencies.

Their mission of bringing to trial and convicting those who violate Federal law is supported by the six litigating divisions of DOJ. These six divisions—the Civil, Criminal, Civil Rights, Environment and Natural Resources, Tax, and Antitrust Divisions—specialize in specific areas of law and have activities that range from providing prosecutive assistance to U.S. Attorneys offices, to bringing their own substantial cases to trial.

Legal Services Corporation: The Federal Government, through the Legal Services Corporation (LSC), promotes equal access to the Nation's legal system by providing funding for civil legal assistance to low income clients who seek redress of grievances. Each year LSC helps to provide high quality legal assistance to approximately one million clients in such

areas as domestic violence, child custody, visitation rights, evictions, access to health care, and unemployment and disability claims.

Judicial Branch: The Judicial Branch is comprised of over 2,100 trial judges, magistrates, and bankruptcy judges, in addition to the nine justices of the Supreme Court. The system is made up of a three-tiered hierarchy with the Supreme Court at the top, the 13 courts of appeals in the middle, and the 94 district courts, the Court of International Trade, and the Court of Federal Claims at the bottom. The Federal judicial system is empowered by Article III of the Constitution to ensure that certain rights and liberties are extended to all persons. The system has witnessed historic growth in recent years that is chiefly attributable to the expanding jurisdiction of Federal courts in the form of over 200 new Federal laws, and the increased criminal filings in district courts along the Southwestern United States border where five districts now account for 27 percent of all criminal filings nationwide.

Correctional Activities

Between 1993 and 2001, the Federal Government will have spent almost \$4 billion on constructing new prisons. During that time, the Federal prison population has grown by over 64 percent, from 88,565 in 1993

to 145,969 in 2000. The past three years show record growth in the Federal prison population. Between 1998 and 2000, over 33,000 inmates were added to the Federal prison system. During 1999, the Federal prison population, rose by 13.4 percent, an increase of 11,296 prisoners, the largest 12-month gain ever reported. To respond to the rapid inmate growth, Federal prison facilities grew from 72 in 1993 to 97 in 2000, with an additional 21 institutions partially funded and in some phase of design or construction. With the Federal inmate population expected to double over the next seven years, the Bureau of Prisons must develop, and continually refine, its projections of inmate growth, as well as expertly manage its portfolio of properties available for expansion, renovation, and development to house this population. In 2001, the Administration requested, but the Congress did not provide, advance appropriations of \$1.3 billion for Federal prison construction. Current inmate population projections, however, clearly illustrate the need for a long term capital plan for prison facilities construction.

Overcrowding has surged in recent years and is expected to remain at 32 percent system-wide by the end of 2000. Federal prison population growth is due to tougher sentencing guidelines, the abolition of parole, minimum mandatory sentences, and significant increases in investments in Federal law enforcement investigations (e.g., FBI) and prosecutions (e.g., U.S. Attorneys). Drug offenders now account for 57 percent of inmates in the Federal system. The Federal Bureau of Prisons has enrolled approximately 34 percent of all inmates in one or more education programs and 100 percent of eligible inmates in residential drug treatment programs.

The total U.S. inmate population, of which the Federal prison system represents less than one tenth, reached a record 2 million in December 2000. State inmate populations have grown, albeit at a slower pace, due in part, to sentencing requirements tied to Federal prison grant funds.

The National Capital and Self Government Revitalization Act of 1997 transferred the State function of operating prisons from the District of Columbia Department of Correc-

tions to the Bureau of Prisons, which will be responsible for housing all D.C. adult sentenced felons. Since passage of the Act, the Bureau of Prisons has accepted 2,903 D.C. inmates of the approximately 8,800 D.C. adult felony inmates. All remaining D.C. adult felony inmates will be transferred to the Federal prison system when the Lorton facility is closed or by December 31, 2001, whichever is earlier.

Criminal Justice Assistance for State and Local Governments

Providing Community Policing: Since 1992, the Federal Government has strengthened its role in providing States and local communities with resources in their fight against crime. State and local law enforcement assistance funding from the Department of Justice has grown five-fold over this period, reaching almost \$5.2 billion in 2001, including \$538 million to assist crime victims. The most significant of these new Federal partnerships with State and local government has been the Community Oriented Policing Services (COPS) program, which was charged by President Clinton with carrying out his commitment to put an additional 100,000 additional community policing officers on the street. In 1999 the COPS program funded its 100,000th officer, and the program is now on track towards the new goal of funding up to 150,000 officers by 2005.

- As of October 2000, COPS has funded 109,000 officers, of which 70,000 are now on the street, working to make America's neighborhoods safer places to live and work. COPS grants have gone to over 12,000 law enforcement agencies, 62 percent of all law enforcement agencies in the United States.
- COPS has provided training to over 128,000 law enforcement personnel and community members, encouraging officers and citizens to work more closely together to fight and prevent crime. As of June 1999, almost 90 percent of local police departments (serving a population of 25,000 or more) had full-time personnel engaged in community policing. State and local law enforcement agencies had over 112,600 sworn personnel engaged in community policing, up from 21,239 in 1997.

Stopping Violence Against Women: The Administration has worked with the Congress to increase funding for programs combating violence against women. First authorized as part of the 1994 Crime Act, the Violence Against Women Act programs have grown from \$26 million in 1995 to \$289 million in 2001, and have helped encourage States, local governments and tribal units to treat domestic violence, sexual assault, and stalking as serious criminal offenses. The number of organizations providing legal assistance to domestic violence victims has grown from 54 in 1998 to 100 in 2000, an 85-percent increase.

Strengthening Indian Country Law Enforcement: Native Americans are almost twice as likely to be the victim of a violent crime as other Americans. In 1997, the President directed the Justice and Interior Departments to jointly address this disparity and the rising crime rates on and near Indian reservations. The 1999 Budget launched a four-year Indian Country Law Enforcement Initiative, which reached an enacted level of \$370 million by 2001. The increases have been used to hire, train, and retain officers and dispatchers, provide additional equipment, replace vehicles, and improve court facilities.

18. GENERAL GOVERNMENT

Table 18-1. Federal Resources in Support of General Government
(Dollar amounts in millions)

Function 800	1993 Actual	2001 Estimate	Percent Change: 1993–2001
Spending:			
Discretionary budget authority	11,642	14,011	20%
Mandatory outlays	1,540	2,283	48%
Credit Activity:			
Direct loan disbursements		16	NA
Tax expenditures	37,205	71,300	92%

NA = Not applicable.

The General Government function encompasses the central management activities of the executive and legislative branches. Its major activities include Federal finances (tax collection, debt financing, currency and coinage, Government-wide accounting), personnel management, and general administrative and property management.

Four executive branch agencies are responsible for these activities: the Department of the Treasury (2001 enacted level of \$14.0 billion), the General Services Administration (\$590 million), the Office of Personnel Management (\$207 million), and the Office of Management and Budget in the Executive Office of the President (\$69 million).

Department of the Treasury

Treasury is the Federal Government's financial agent—collecting revenue, making payments and managing the Government's finances. It produces and protects the Nation's currency; helps set domestic and international financial, economic, and tax policy; enforces economic embargoes and sanctions; regulates financial institutions and the alcohol, tobacco, and firearms industries; and protects citizens and commerce against those who counterfeit money, engage in financial fraud, violate our border, and threaten our leaders. Treas-

ury's law enforcement functions are discussed in Chapter 17, "Administration of Justice."

Treasury has enjoyed eight years of success in delivering its missions. In 2000 Treasury collected \$2 trillion in tax and tariff revenues due under law; issued nearly \$2 trillion in marketable securities and savings bonds to finance the Government's operations and promote citizens' savings; and, produced nine billion Federal Reserve Notes, 17.5 billion postage stamps, and 27.2 billion coins.

Internal Revenue Service (IRS): The Clinton-Gore Administration inherited an IRS with an outdated organizational structure, work processes and technology. Confronted with a steadily increasing workload (well over one-billion documents each year), IRS was failing to provide the level of service expected by America's taxpayers.

Since 1993, the IRS has been transformed. As required by the bi-partisan IRS Restructuring and Reform Act of 1998, IRS reorganized into four operating divisions, each focused on serving groups of taxpayers with similar needs (i.e., wage and investment earners, small business and self-employed, middle and large corporate, and tax exempt and government entities). This transformation is the most fundamental organizational modernization of the IRS since the early 1950s.

IRS also adopted a new mission statement that reflects both its customer service and enforcement roles: “to provide America’s taxpayers with top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.”

Currently, the IRS is engaged in a massive effort to modernize its outdated technological infrastructure to dramatically improve compliance, productivity, and customer service. The management capacity to succeed in this extraordinarily complicated effort was instituted over the last three years. IRS will require another decade to complete the full program.

IRS introduced a new balanced performance measurement system to improve its management. Over the last several years, balanced measures of business results (including quality and quantity measures), customer satisfaction, and employee satisfaction were developed for each major work product (e.g., examinations, telephone customer service, etc.). In addition, IRS is engaged in a long-term study to improve its understanding of taxpayer compliance burden so that this burden can be minimized.

IRS managed its growing workload while implementing its modernization program. In 2000, IRS:

- provided 92.2 million refunds to taxpayers on 127.7 million individual returns (83.7 million refunds on 114.2 million returns in 1993); and,
- received 28 percent of individual tax returns electronically (11 percent in 1993).

Financial Management Service (FMS):

The FMS seeks to improve the quality of Federal Government financial management by providing financial services and information to Federal program agencies and other clients. Over the past eight years, FMS has drastically improved its electronic payment and collection systems; and, in doing so, has been able to better serve its customers. For example, the percentage of payments transmitted electronically has increased from 50 percent in 1995 to 70 percent in 2000. In addition, FMS re-

ceived over 75 percent of its collections electronically in 2000, compared to 28 percent in 1995. FMS also has been successful providing debt collection and debt management services to Federal agencies to aid in its implementation of the Debt Collection Improvement Act (DCIA). Since the passage of the DCIA in 1996, Treasury has collected approximately \$9.1 billion in delinquent debt.

Bureau of Public Debt (BPD): BPD handles all Treasury debt financing operations and promotes the sale of U.S. savings bonds. During this Administration, BPD streamlined and consolidated the issuance and redemption process, allowing the Bureau to:

- consistently issue at least 99 percent of over-the-counter bonds within three weeks of their purchase; and,
- announce auction results within one hour 90 percent of the time (100 percent in 1999 and 2000).

U.S. Mint: The U.S. Mint—a self-financing entity which returns almost \$3 billion to the Treasury each year—produces the Nation’s coinage and manufactures numismatic products (commemorative coins, medals, and bullion) for the public as well as safeguards the Government’s holdings in monetary metals. Highlights of the Mint’s activities during the last eight years follow:

- The implementation of the 50 States Commemorative Quarter Program in 1999. Approximately every 10 weeks, through 2008, the Mint will issue a new State quarter.
- The issuance of the new golden dollar in 2000. To date, the Mint estimates that it will produce close to two billion dollar coins.
- Achieving impressive customer service goals. In 1999, the Mint received a high customer satisfaction rating from buyers of numismatic and commemorative coins. Exceeding the scores of many private sector firms in the American Customer Satisfaction Index (ACSI), the Mint scored among the highest of the 29 “high impact” Federal agencies evaluated by ACSI.

Bureau of Engraving and Printing (BEP): BEP produces all U.S. currency, about half of U.S. postage stamps, and other Government securities. During this Administration, the Bureau increased its capacity to produce currency. Over the past eight years, BEP efficiency and cost-effectiveness have increased, allowing the Bureau to:

- successfully redesign and issue new \$100, \$50, \$20, \$10, and \$5 bills, which contain many new features intended to make our currency secure and to defeat high-tech printing equipment; and,
- meet all Federal Reserve and United States Postal Service orders as requested.

General Services Administration (GSA)

GSA provides policy leadership and expertly managed space, products, and services to support the administrative needs of Federal agencies. Over the past eight years, GSA has expanded the range of choices available to its customers for office space, supplies, and administrative services. It has also strengthened its role as the central management agency for administrative services policies. During this same period, GSA reduced its staffing by 30 percent, from 20,248 to 14,027, and increased its annual operating revenues by nearly 60 percent, from \$8.4 billion to \$13.3 billion. Highlights of GSA's activities over the past eight years follow.

- In 1995, GSA centralized its policy and regulatory authorities into an Office of Government-wide Policy (OGP) reporting directly to the Administrator. Since then OGP has begun a complete revision of GSA regulations to replace overly complex and outdated policies with simpler, "plain language" guidance. OGP has also modernized its Government-wide information systems that capture agency data on the management of various administrative activities such as real property holdings, motor vehicles, aircraft, and travel.
- The Public Buildings Service (PBS) is GSA's largest business activity and provides real estate and related services for more than 100 Federal organizations. Since 1993, PBS has constructed 86 new Federal buildings, of which 37 were court-

houses. During this same period, PBS completed major repair and alteration projects on 156 Federal buildings. PBS currently manages almost 186 million square feet of space in Federal buildings and nearly 153 million square feet of space in leased buildings. During the past six years, PBS has improved its responsiveness to its agency customers by reducing the average time for an agency to lease space through GSA from 244 days to 136 days. In 2000, PBS operated Government owned space at a cost 13 percent below the private sector and since 1985 has reduced its energy consumption by 20 percent.

- The Federal Supply Service (FSS) has begun a fundamental shift in its business model. In 1993, agencies ordered \$926 million in supplies from FSS warehouses and purchased \$2.9 billion in supplies and services directly from vendors on FSS' Multiple Award Schedules contracts. Last year, agencies ordered \$781 million from FSS warehouses, but purchased more than \$11.4 billion through the Multiple Award Schedules contracts. FSS has also led the Federal Government in simplifying the processes used by agencies to order and pay for supplies and services. GSA Advantage! is an FSS web site through which agencies can order more than 800,000 supply items on-line. GSA's Smart Pay program offers agencies charge cards through which they can purchase goods and services and charge travel expenses. Agency charges through this FSS program have grown from \$2.3 billion in 1993 to \$10.1 billion in 1999.
- The Federal Technology Service (FTS) is the smallest of the three GSA business units but has made the greatest contribution to GSA's revenue growth. In the last eight years, FTS revenues increased over 2½ times, from \$1.1 billion in 1993 to almost \$4.2 billion in 1999, most of the increase coming from the sales of information technology services. During this period, FTS also negotiated new long-distance telecommunications contracts that bring the average cost of a long-distance phone call below five cents per minute.

Office of Personnel Management (OPM)

OPM provides human resource management leadership and services to Federal agencies and the 1.8 million employees in the civil service. OPM works closely with agencies to create effective policies and systems to recruit, develop, manage and retain the high quality and diverse work force needed to deliver results. OPM provides policy guidance, advice, and direct personnel services and systems to the agencies. It operates USAJOBS, a worldwide job information and application system. It provides fast, friendly, accurate, and cost-effective retirement, health benefit, and life insurance services to Federal employees, annuitants, and agencies. See Chapter 12, "Health," for a discussion of the health benefits program and Chapter 14, "Income Security," for a discussion of the retirement program.

OPM provides oversight of the Federal merit system, through on-site evaluations that are conducted on a four-year cycle for the 30 major departments and agencies, and a five-year cycle for 35 small agencies. These oversight reviews ensure that agencies are adhering to the merit system principles (5 USC 2301), and other policies and principles such as veteran's preference and protection from prohibited personnel practices, while allowing agencies enough flexibility to focus on results, not process.

Over the past eight years OPM achieved considerable success in refocusing its mission and goals to ensure that the Federal work force is effectively poised to meet the challenges of the 21st Century. It positioned itself to help agencies better align human resources management to support agency goals. OPM privatized its training and background investigations programs, the latter resulting in the first Government Employee-owned Stock Ownership Plan (ESOP). The ESOP has exceeded expectations of success many times over. Extensive use of automation and application of state-of-the-art information technology has provided agencies with the tools needed to better recruit, train, retain and manage their work forces to best serve the American people.

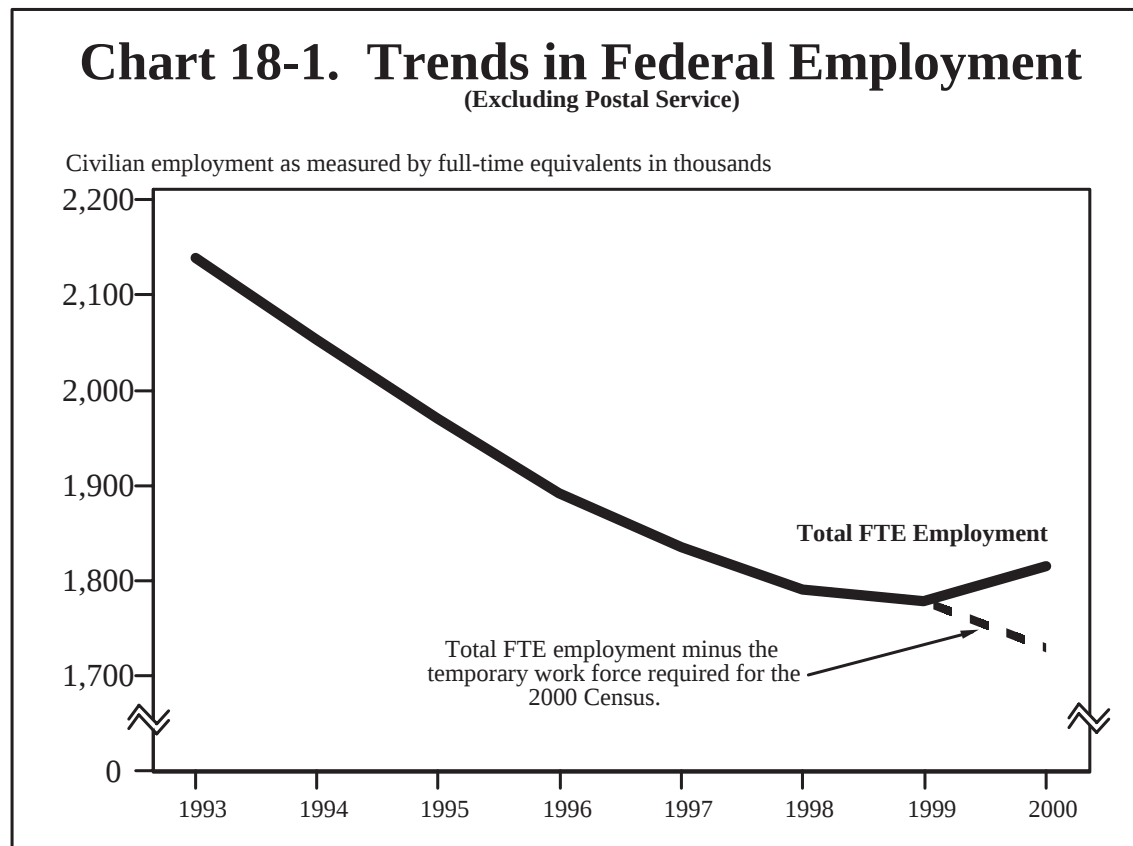
As the Government's central human resources management agency, OPM presided

over dramatic work force changes experienced by the Executive Branch during the last decade. Between 1993 and 1999, the Federal work force declined by 17 percent, or 377,000 full time equivalent (FTE) positions, resulting in the smallest Federal work force in 39 years (see Chart 18-1). Almost all of the 14 Cabinet Departments and large independent agencies have reduced their work force. OPM itself reduced its work force by 45 percent during this period. (It should be noted that some argue that the work force needed to deliver the mission of the Federal Government also includes uniformed military, postal workers, contractors, grantees, and State and local government employees, putting the work force needed to do the job closer to 16.8 million in 1999.) These work force reductions accompanied intensive management reform efforts to achieve a Government that works better, costs less, and gets results Americans care about.

OPM's significant accomplishments in 2000 included: new procedures for evaluating senior executives that reinforce excellence and accountability; a career intern hiring program to attract top quality, diverse applicants; regulations to allow repayment of student loans as a recruitment incentive; higher pay rates to attract and retain key Federal information technology workers; child care tuition assistance to support low-income employees; an Executive Order increasing the opportunity for individuals with disabilities to be employed in the Federal work force; and USA Staffing—a fully automated system for posting vacancies, accepting and rating applications, and notifying applicants and agencies of results.

Office of Management and Budget (OMB)

OMB assists the President by preparing the Federal budget and overseeing its execution in the departments and agencies. In helping formulate the President's spending plans, OMB coordinates the review and examines the effectiveness of agency programs, policies, and procedures; assesses competing funding demands among agencies; and, provides policy options. OMB works to ensure that proposed legislation, and agency testimony, reports, and policies are consistent with Administration policies, leveraging use of interagency programs and Councils. On



behalf of the President, OMB often presents and justifies major policies and initiatives related to the budget and Government management before the Congress. It performs a critically important function in representing the President's position during face-to-face negotiations with members of the Congress over budget and policy issues. In addition, OMB is often called upon to provide Government-wide policy development and coordination on issues of importance to the national interest, such as the U.S. policies on responding to the crisis in Kosovo and on the protection of our natural resources.

OMB has a central role in developing, overseeing, coordinating, and implementing Federal procurement, financial management, information, and regulatory policies. OMB helps to strengthen administrative management, develop better performance measures, and improve coordination among Executive Branch agencies.

Over the past eight years, OMB has exercised its leadership and oversight role on a number of significant Government-wide efforts. Examples include: (1) continued implementation of the Chief Financial Officers Act, which resulted in 15 agencies receiving unqualified audit opinions on 1999 financial statements; (2) the Government Performance and Results Act, which resulted in a closer integration of budget and performance data and a Government-wide performance plan; (3) the Government Management Reform Act, which led to agencies' issuing accountability reports for the first time; (4) the Clinger-Cohen Act, which put in place sound information technology resources capital planning and investment control, with performance based acquisition strategies, all firmly linked to budget requests; (5) provided overall coordination of Y2K resource allocations for the agencies; and, (6) the Federal Acquisition Streamlining Act, which has resulted in the Government buying better goods and services

for fewer dollars and has propelled acquisition reform throughout the Government. A series of Priority Management Objectives was established and issued in the annual budget, focusing top management attention on the most pressing management improvements needed in Government.

OMB produced the annual budget for 2001 using a state-of-the art off-site secure data center to improve efficiency and timeliness, improve services to agency customers, and ensure Y2K compliance. In 2001, OMB is investing in additional information technology applications to improve efficiency and effectiveness of the OMB's staff in completing an ever-increasing workload under continually shrinking deadlines. In addition, OMB staffing is being increased to permit completion of more thorough technical and analytical work in key functional areas such as financial management, procurement, regulatory analysis, economic forecasting, and technology systems investment analyses.

Tax Incentives

The Federal Government provides significant tax incentives that benefit State and local governments and U.S. possessions. The two largest are the deductibility of State and local taxes (\$46 billion in 2001) and the exclusion of interest on State and local bonds (\$23 billion in 2001). During this Administration, the effectiveness of tax incentives has been improved through reform of the possession credit and the expansion of credits to holders of qualified zone academy bonds.

- The Omnibus Budget and Reconciliation Act (OBRA) of 1993 reduced the cost of the possession tax credit and greatly improved its effectiveness in creating jobs in the possessions. Before OBRA 1993, U.S. corporations operating in a possession received a credit for the U.S. tax liability on their income in the possession. These profits tended to be very high because valuable intangible assets such as patents and trademarks were routinely transferred

to the possessions corporation. Treasury studies indicated that the revenue loss per job created by possession corporations was very high, in excess of 100 percent of the compensation paid. In 1993, the President proposed to convert the income-based possession credit to an activity-based credit. The credit would be limited to 60 percent of the wages paid. The compromise reached in OBRA 1993 permits taxpayers to choose between the wage credit and a substantially reduced income-based credit, phasing down eventually to 40 percent of its pre-OBRA level. The cost of the program has been reduced by about 40 percent or almost \$2 billion per year. Employment in possessions corporations has risen.

In 1994, the Congress further restricted the possession credit by imposing base period constraints on future credits. In the 1996 Small Business Job Protection Act, the Congress enacted the complete termination of the possession credit for all taxable years beginning after December 31, 2005.

- The Taxpayer Relief Act of 1997 provided a tax credit to holders of Qualified Zone Academy Bonds (QZABs). The law created \$400 million of authority to issue QZABs for 1998 and 1999 and allocate it among State education agencies. The proceeds of the bonds may be used for renovation of and equipment in Zone Academies, i.e., elementary or secondary schools in enterprise communities or empowerment zones or having 35 percent or more of their pupils eligible for the free and reduced-price lunch program. Private entities must make a contribution to the school program equal to 10 percent of the face amount of the bonds. Holders of the bonds receive the tax credit in lieu of interest payment; issuers are responsible for repayment of principal. An additional \$400 million of bond authority was provided for 2000 and 2001 by the Ticket to Work and Work Incentives Improvement Act of 1999.

19. NET INTEREST

Table 19-1. Net Interest
(Dollar amounts in millions)

Function 900	1993 Actual	2001 Estimate	Percent Change: 1993-2001
Spending:			
Mandatory outlays	198,736	210,234	6%
Tax expenditures	1,130	490	-57%

The Federal Government pays large amounts of interest to the public, mainly on the debt it incurred to finance the excess of past budget deficits over surpluses. Net interest closely measures these Federal interest transactions with the public.

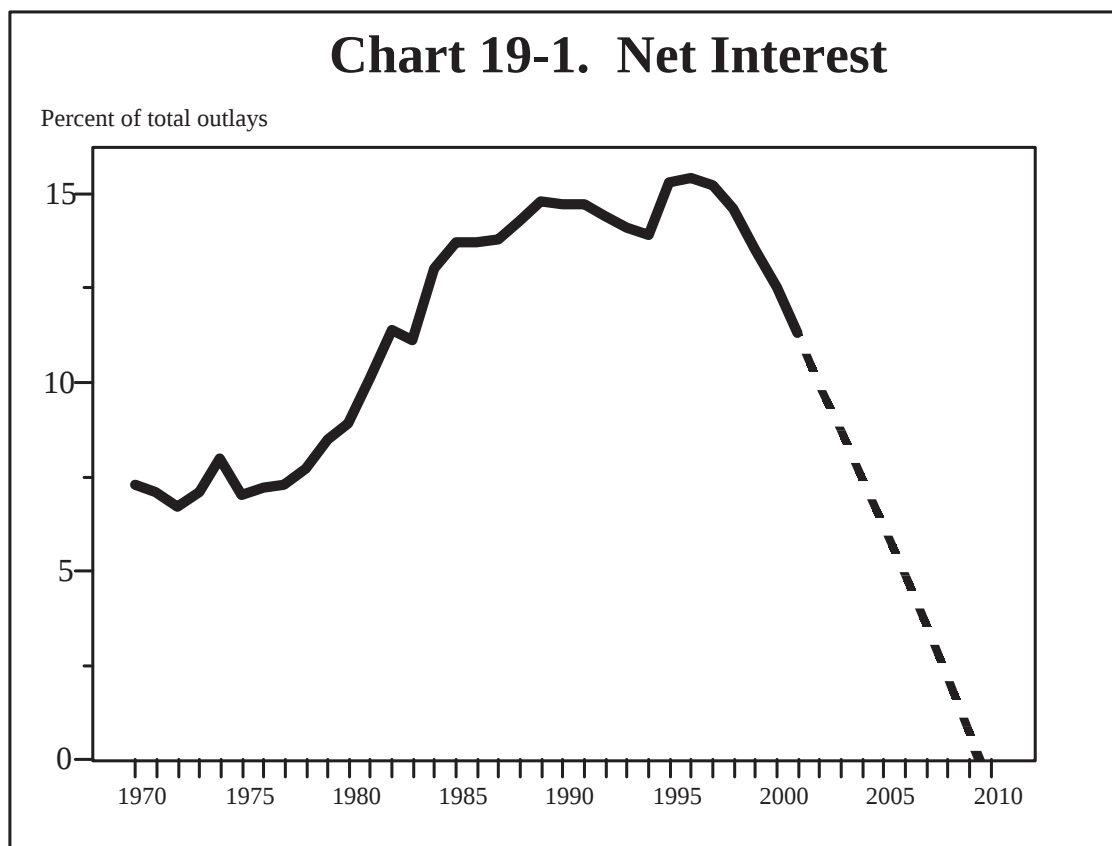
The Government also pays interest from one budget account to another, mainly because the Government invests its various trust fund balances in Treasury securities. Net interest does not include these internal payments.

Falling Interest Burden

The amount of net interest depends on the amount of debt held by the public, as well as on the interest rates on the Treasury securities that comprise the debt. In 1993, the Administration inherited a large and growing debt, coupled with the prospect of large and growing budget deficits for many years into the future. Net interest had grown from \$14.4 billion (or 1.4 percent of GDP) in 1970 to \$198.7 billion (or 3.0 percent of GDP) in 1993, and was projected to grow still further without a change in policy. Over the same period, net interest had increased from 7.3 percent of total outlays to 14.1 percent. Largely as a result of fiscal policy actions under the Clinton-Gore Administration, and the strong economic performance over the past eight years, the unified budget deficit of \$290 billion in 1993 became an estimated surplus of \$256 billion in 2001; thus, the long, upward trend for net interest

has ended. In dollar terms, net interest began to decline in 1998 with the first budget surplus in recent years. By 2001, net interest is projected to be \$210.2 billion, about \$34 billion below its 1997 peak (though still about \$11 billion above the level of 1993). As a percentage of GDP, net interest will fall from 3.0 percent in 1993 to an estimated 2.0 percent in 2001. As a percentage of total outlays, it will fall from 14.1 percent in 1993 to an estimated 11.3 percent in 2001, freeing resources for other purposes (see Chart 19-1).

The projection at the start of the Administration was that net interest would continue to increase in dollars and as a percentage of GDP for the foreseeable future, thereby leaving less budgetary resources available for programs, and threatening the long-term sustainability of the budget. This trend for net interest has improved radically, however, largely as a result of fiscal policy actions and the strong economic performance over the past eight years. The Omnibus Budget Reconciliation Act of 1993 and the Balanced Budget Act of 1997 reduced the size of the projected deficits. Actual budget performance exceeded expectations, as the economy grew more strongly than expected; receipts grew faster, and outlays slower, than expected. The unified budget turned to surplus in 1998, and the surpluses grew larger in 1999 and 2000. As a consequence, the debt held by the public fell from \$3.8 trillion at the



end of 1997 to \$3.4 trillion at the end of 2000.

The swing to surplus in the unified budget increased national saving and enhanced economic growth. The prospect of continuing surpluses implies that net interest will continue to fall toward zero over the next few years. This improvement is one of the most important reasons for the projected long-term stability of the budget, and is a vital foundation for the Nation's preparation for the aging of the population, including the impending retirement of the baby-boom generation.

Components of Net Interest

Net interest is defined as interest on Treasury debt securities (gross), minus the interest received by on-budget and off-budget trust funds, and adjusted for the receipts and outlays that are recorded as "other interest" (discussed later in this chapter).

An important part of the net interest function is to bring together the payment and receipt of interest from one Government account to another. The largest portion of these transactions involves the payment of interest to trust funds, which have invested their cash surpluses in Treasury securities. Within the interest function, the payments of interest to trust funds are included in interest on Treasury debt securities (gross) and the receipts of interest by trust funds are shown, as negative amounts, in interest received by trust funds. A similar treatment is given to several special funds, such as the Nuclear Waste Disposal Fund and Abandoned Mine Reclamation Fund. For these special funds, payments of interest are included in interest on Treasury debt securities (gross) and the receipts of interest are shown, as negative amounts, in "other interest." A smaller category of intragovernmental interest payment occurs primarily in connection with Federal credit programs, when certain

Government accounts borrow from the Treasury, which, in turn, must borrow from the public. In these instances, the payment of interest on the Treasury's borrowing from the public is shown as interest on Treasury debt securities (gross) and Treasury's receipt of interest from the borrowing agency is shown as "other interest."

Thus, the net interest total includes, where possible, both the paying side and the receiving side of intragovernmental interest payments. The exception to this practice occurs where only the paying side is included in the interest function, as happens with payments of interest to revolving funds, such as the Bank Insurance Fund, Exchange Stabilization Fund, or Employee Life Insurance Fund. The payments to these funds are shown as interest on Treasury debt securities (gross), but the receipts by these funds are reported as offsetting collections within the fund, rather than offsetting receipts in the interest function. This practice leaves net interest as a close, though not precise, measure of the interest paid to the public.

Interest on Treasury Debt Securities (Gross): Interest on Treasury debt securities (gross) rose from \$292.5 billion in 1993 to an estimated \$361.2 billion in 2001. The underlying debt includes the rising amount of trust fund balances in on-budget and off-budget Government accounts. At the end of 2000, the gross Federal debt totaled \$5.6 trillion, compared to \$4.1 trillion at the end of 1992. However, most of the growth in the gross Federal debt occurred by 1998; during the last two years, gross debt has increased only slightly, as the decrease in debt held by the public has been approximately matched by an increase in trust fund balances. For the period 1993–2001, the increase in debt held by trust funds was greater than the increase in total Treasury debt securities (gross).

Interest Received by Trust Funds: As noted earlier in this chapter, interest received by trust funds is deducted from the interest on Treasury debt securities (gross) to determine net interest. Total trust fund interest receipts were \$82.3 billion in 1993, increasing to an estimated \$142.1 billion in 2001.

The receipts of Social Security's Old-Age and Survivors Insurance and Disability Insurance trust funds are the largest of all the trust funds (and are excluded from the budget, and thus shown as "off-budget," under current law). Because Social Security accumulated large surpluses between 1993 and 2001, its interest earnings rose from \$26.8 billion in 1993 to an estimated \$69.0 billion in 2001. The other large trust funds which earn interest (which are on-budget) include the civil service retirement and disability fund (whose interest rose from \$25.7 billion in 1993 to an estimated \$35.3 billion in 2001); the military retirement fund (whose interest increased from \$9.8 billion to \$12.6 billion); and, the Medicare Hospital Insurance trust fund (whose interest declined from \$10.6 billion in 1993 to \$9.2 billion in 1998, as that program generated small deficits between 1995 and 1997; however, reforms enacted in 1997 and slower-than-expected cost increases have resulted in an increase in the fund balance and an increase in interest received to an estimated \$12.2 billion in 2001).

Other Interest: Other interest includes both interest payments and interest collections. Receipts of interest are included for credit liquidating accounts and the Federal Financing Bank (which borrowed from the Treasury, mostly to support certain Federal credit programs). Receipts of interest are also included for special funds, as described earlier. Payments of interest include IRS payments on certain refunds, and payments to credit financing accounts that have deposited cash balances with the Treasury.

Budgetary Effect, Including the Federal Reserve

The Federal Reserve System buys and sells Treasury securities in the open market to implement monetary policy. The interest that Treasury pays on the securities owned by the Federal Reserve is included in net interest as a cost, but virtually all of it comes back to the Treasury as "deposits of earnings of the Federal Reserve System." These budget receipts will total an estimated \$27.9 billion in 2001.

20. UNDISTRIBUTED OFFSETTING RECEIPTS

Table 20-1. Undistributed Offsetting Receipts
(Dollar amounts in millions)

Function 950	1993 Actual	2001 Estimate	Percent Change: 1993–2001
Spending:			
Mandatory outlays	–37,386	–47,177	26%

Undistributed offsetting receipts fall into two categories: (1) the Government's receipts from performing certain business-like activities, such as proceeds from oil and gas leases on the Outer Continental Shelf; and, (2) collections of Federal agencies' contributions to Federal employees' retirement plans. Receipts from all business-like activities are offset against budget authority and outlays, instead of being recorded as governmental receipts, so that the budget totals represent the amount of resources allocated by the Government rather than by the market mechanism. Unlike most business-like receipts, which are offset within the same function as the spending that gives rise to the receipt, some are so large that it would distort the functional totals to distribute them by function. Instead, they are undistributed by function and offset against the budget totals. Receipts of agency retirement contributions are offset against the payments, so that the budget totals measure the Government's transactions with the public. These intrabudgetary transactions are important for allocating costs to programs that incur the cost, but they have no net impact on total budget authority and outlays. They are offset against total budget authority and outlays because offsetting them within the functions in which the payments are recorded would cause the totals for those functions to seriously understate current expenditures.

Rents and Royalties on the Outer Continental Shelf

The Department of the Interior's Outer Continental Shelf (OCS) lands leasing program, which began in 1954, currently generates about 26 percent of total U.S. domestic oil production and 27 percent of domestic natural gas production. Since the OCS program's inception, it has held 150 lease sales, covering areas three to 200 miles offshore and generating over \$134 billion in rents, bonuses, and royalties—mainly for the General Fund of the Treasury—with an estimated \$6 billion in OCS receipts in 2001. OCS revenues also provide nearly all funding for the Land and Water Conservation Fund. In 1998, the Clinton-Gore Administration extended a leasing moratoria for environmentally sensitive areas—offshore California, Oregon, and Washington; the Eastern Seaboard; the southwestern coastline of Florida, including the Everglades; and, certain parts of Alaska.

Employee Retirement

In 2001, Federal agencies are expected to pay an estimated \$39.5 billion on behalf of their employees to the Federal retirement trust funds, the Medicare health insurance trust fund, and the Social Security trust funds. (The major programs of the Federal retirement trust funds are the Military Retirement System, the Civil Service Retirement System, and the Federal Employees'

Retirement System.) As civilian and military employees' pay rises, agencies must make commensurate increases in their payments to recognize the rising cost of retirement. The amount of receipts also changes with increases or decreases in the number of employees and changes in the retirement accruals charged to agencies. The agency payments and trust fund receipts are offsetting and do not affect the unified budget totals. Under the 1997 Balanced Budget Act, agency contributions for employees covered by the Civil Service Retirement System were increased from seven percent of salary to 8.51 percent beginning in 1998. These higher contributions are set to expire in 2003.

Other Undistributed Offsetting Receipts

In 1993, the President and the Congress gave the Federal Communications Commission

(FCC) authority to assign spectrum licenses through competitive bidding, which has proven to be a very efficient and effective way to allocate this finite public resource. Until the auction program was implemented in 1994, valuable spectrum licenses were awarded for free through lotteries or time-consuming comparative hearings. Through auction, the FCC awards licenses about 40 percent faster than lotteries and 70 percent faster than comparative hearings. By the end of 2001, the FCC will have auctioned over 14,300 licenses and collected over \$20 billion in actual and estimated cash receipts—encouraging the development of innovative telecommunications services and ensuring that the public is compensated for the private use of a public resource.

IV. CURRENT SERVICES ESTIMATES AND THE PENDING POLICY AGENDA

IV. CURRENT SERVICES ESTIMATES AND THE PENDING POLICY AGENDA

The current services baseline shows what receipts, outlays, surpluses, and budget authority would be if no changes were made to laws already enacted. It is an essential starting point in developing the annual budget. Although it is not intended to be a prediction of the final outcome of the budget process, it serves several useful purposes. First, it provides a measuring stick against which competing proposals can be compared. The extent to which proposals change the level of services provided under current law can be readily determined and communicated. Second, it warns of future problems, either for Government fiscal policy as a whole or for individual tax and spending programs. The baseline levels of surpluses can provide policymakers with important information on what resources are available for priority needs.

OMB follows the rules in the Budget Enforcement Act (BEA) that specify how to develop baseline estimates. These rules require largely mechanical applications of estimating models. Receipts and mandatory programs are projected based on continuation of existing laws into the future. In some instances, the way the rules were written can understate the full demands on future resources. For example, baseline rules require that certain provisions of law that affect receipts and mandatory programs expire as specified under current law. In a number of cases, these provisions have been routinely extended in the past. Because it is widely assumed that they will again be extended at their expiration, the failure to include them in baseline estimates understates virtually certain demands on resources. A more prudent approach would be to include these expiring provisions as part of the baseline before considering further policy changes.

In this section of the document, we show the baseline estimates, discuss baseline anomalies and provide an adjusted baseline, provide alternative formulations for the discretionary baseline, and finally discuss and summarize pending Administration policies that provide an important reference point.

Baseline Issues

Anomalies are created by the mechanical nature of the BEA baseline rules. This section discusses those anomalies and what they mean for the overall baseline.

Expiring Mandatory and Receipts Provisions: The BEA rules require that expiring provisions of law not specifically covered by a BEA exemption be assumed to expire as scheduled in the current services baseline. As a result, a number of provisions that in the past have been routinely reauthorized by the Congress are not assumed to continue in the baseline estimates. Extension of expiring provisions of the tax code that have been previously extended would reduce tax receipts by \$118 billion over the 10 years, 2002 through 2011. Similarly, emergency farm aid is assumed only for the current crop year even though emergency aid has been provided to farmers routinely in recent years. If aid at the average level of the past three years were provided each year, total spending would increase by \$74 billion over the projection period. Some savings provisions that have been routinely extended are also affected by the BEA rules. For example, customs user fees are due to expire at the end of 2003. If extended, these fees would yield \$14 billion over the projection period. Table IV-1 provides a listing of expiring receipts and mandatory provisions that have been extended in the past.

Table IV-1. Accounting for Expiring Provisions

	Estimate		
	2002	2002-2006	2002-2011
Revenue Provisions			
(Revenue effect, in billions of dollars)			
Tax credit for first-time D.C. homebuyers		-0.1	-0.2
D.C. enterprise zone/renewal community designation			-0.1
Contributions of computer technology and equipment to schools		-0.3	-1.1
Archer Medical Savings Accounts (MSAs)	—*	-0.1	-0.2
Round I and Round II empowerment zones			-1.7
Tax credit for research and experimentation expenditures		-9.9	-48.9
Work opportunity tax credit	-0.1	-1.6	-5.0
Welfare-to-work tax credit	—*	-0.4	-1.3
Exclusion for employer-provided educational assistance	-0.2	-1.8	-4.2
Expensing of Brownfields environmental remediation costs		-1.0	-2.6
Generalized system of preferences (GSP) ¹	-0.3	-1.8	-4.2
Wind and biomass tax credit	—*	-0.2	-0.7
Net income limitation on percentage depletion from marginal wells	—*	-0.1	-0.3
Qualified zone academy bonds	—*	-0.1	-0.7
Exceptions provided under Subpart F for active financing income	-0.9	-7.2	-16.2
Treatment of nonrefundable personal credits under AMT	-0.3	-9.0	-39.1
IRS letters of determination		0.1	0.3
Luxury tax on passenger vehicles ¹		0.5	1.3
Abandoned mine reclamation fund ¹		0.4	1.6
FUTA surtax of 0.2 percentage points ¹			5.5
Total, revenue provisions	-1.8	-32.3	-117.8
Mandatory Provisions			
(Outlay effect, in billions of dollars)			
CCC conservation technical assistance	*	0.2	0.4
CCC emergency farm income and crop/livestock loss assistance	7.3	36.6	73.3
Customs user fees		-4.6	-13.8
Medicaid transitional medical assistance	0.4	2.1	5.0
Recreation fee demonstrations		0.1	0.5
Veterans housing:			
Fee increase of .75 for loans			-0.6
Fee for subsequent loans			-0.3
Inclusion of resale losses in net calculation			—*
Veterans compensation and pensions:			
IRS income verification		—*	-0.1
Round down COLAs		-0.2	-0.8
Limit VA pensions to Medicaid-eligible recipients			-0.5
Total, mandatory provisions	7.7	34.1	63.0
Total, revenue and mandatory provisions (surplus impact)	-9.5	-66.5	-180.8

* \$50 million or less.

¹ Net of income offsets.

Non-Defense Discretionary Anomalies in the Baseline: Application of BEA baseline rules to each program and account can lead to exaggerated or understated program levels in some instances, thus misstating the funding needed to meet future demands. For example, there are two instances where there are already enacted caps for specific discretionary programs at levels above the inflation-adjusted levels required by the BEA. The Transportation Equity Act for the 21st Century (TEA-21) established new caps for highway and mass transit spending that created a guaranteed spending level tied to the collections of receipts in the Highway trust fund. Failure to acknowledge the higher TEA-21 levels leads to an understatement of transportation spending of \$24 billion over the 10-year projection period. Likewise, the new conservation spend-

ing category established in this year's appropriations bills provides dedicated funding, which may be appropriated for conservation programs. The BEA baseline underfunds these programs by \$7 billion over 10 years compared to the newly enacted caps.

There are also specific programmatic reasons that BEA baseline rules fail to accurately estimate funding needs. For example, the decennial census was just completed and enacted spending for the census in 2001 is relatively low. However, spending on the census will need to increase as the cycle for the next census begins. If the spending on the census follows its traditional path, spending would be \$9 billion higher over the 10-year projection period than projected under BEA baseline rules. Other anomalies created by BEA rules are the result of

Table IV-2. Major Anomalies Caused by BEA Baseline Rules

(In billions of dollars)

	Estimate		
	2002	2002-2006	2002-2011
Reflect previously enacted caps for specific programs:			
Highways:			
Budget Authority	2.1	10.9	23.1
Outlays	0.6	7.7	19.3
Mass transit:			
Budget Authority	0.4	3.2	7.1
Outlays	*	1.4	5.0
Conservation programs:			
Budget Authority	0.3	2.6	7.3
Outlays	-0.2	2.1	6.6
Subtotal, reflect enacted caps:			
Budget Authority	2.7	16.8	37.5
Outlays	0.4	11.1	30.9
Examples of major anomalies:			
Reflect outyear cyclical Census spending:			
Budget Authority	0.1	1.3	9.5
Outlays	0.1	1.2	9.4
Reflect lack of outyear needs for Woodrow Wilson Bridge:			
Budget Authority	-0.6	-3.2	-6.7
Outlays	-0.2	-2.3	-5.8
Total:			
Budget Authority	2.2	14.8	40.2
Outlays	0.3	10.1	34.5

*\$50 million or less.

oddities in the 2001 appropriated level. For example, one-time funding was provided in 2001 for the construction of the Woodrow Wilson Bridge across the Potomac River. The baseline, however, assumes continued funding at the same level into the future in the bridge account. Table IV-2 provides a listing of several large anomalous results that arise from application of BEA baseline rules.

Baseline Alternatives

Discretionary, or annually funded, programs are estimated by adjusting the current year enacted level by inflation into future years. In recent years, discretionary appropriations have grown above the rate of inflation and at the same time discretionary programs, both for defense and non-defense purposes, were at all time lows as a percent of GDP in 1999. While the inflation adjustment specified by the BEA is an approximate measure to maintain the purchasing power of Federal programs, there are several other approaches to projecting discretionary funding needs that should be considered.

- Many programs would be expected to need more funding to serve an increasing population. A reasonable expected growth rate for discretionary spending might be inflation plus population growth. For example,

funding for the Child Care and Development Block Grant provides assistance to a set number of children per year under baseline rules. As the population of young children grows, a smaller percentage of them will be assisted under the program at this funding level. If population were factored in to the baseline calculations for discretionary programs, outlays for discretionary programs would grow by \$362 billion over 10 years.

- Another reasonable expected growth pattern for discretionary spending is to allow it to grow with the economy. Outlays for discretionary programs would grow by \$979 billion over 10 years compared with the inflation adjustment in the current services estimates.
- Unlike other agencies, budgeting for the Department of Defense (DOD) is based on multi-year plans with large research, procurement, and construction needs. It is normal to measure changes in funding for DOD from the previous long-term plan rather than a baseline developed under BEA baseline rules. The level under BEA baseline rules would protect the value of the \$112 billion defense budget authority increase provided by the President in the 2000 Budget, subsequent changes in law,

Table IV-3. Bridge from BEA Baseline Surplus to Anomaly Adjusted Baseline Surplus

(In billions of dollars)

	Estimate		
	2002	2002-2006	2002-2011
On-budget surplus (excluding HI) applying BEA rules	69	474	1,914
Adjustments for:			
Extension of expiring provisions:			
Revenues.	-2	-32	-118
Mandatory programs	-8	-34	-63
Reflect previously enacted caps for specific programs	—*	-11	-31
Adjust for major anomalies	*	1	-4
Related debt service	—*	-10	-56
Subtotal, adjustments	-10	-86	-271
Surplus with adjustments	58	388	1,643

*\$50 million or less.

and would be sufficient to accommodate potential increases. This baseline level would continue high levels of readiness, offset the impact of higher fuel and inflation costs, and finance the expanded health care and pay provisions enacted in the 2001 National Defense Authorization Act.

Pending Policy Proposals

While this Administration has many legislative and budgetary achievements, there are a number of policy goals that remain unfinished. The following section discusses a number of examples of both legislation and funding that reflect this remaining agenda. (See Table IV-4.)

Medicare and Social Security Lockboxes: The Administration remains committed to solvency the long-term solvency problems of medicare and social security. Locking away the trust fund surpluses ensures that these resources are used to reduce public debt and not used for other purposes. The medicare and social security chapters of Section III discuss the specifics of the Administration's proposals.

Medicare Prescription Drug Benefit: The President proposed to modernize the medicare benefit structure by adding a long-overdue voluntary outpatient prescription drug benefit. The Administration's proposal offers a broad based benefit through the medicare program which ensures that all medicare beneficiaries receive a standard, affordable drug benefit. This historic drug benefit has no deductible and pays for half of the beneficiary's drug costs from the first prescription filled each year up to \$5,000 in spending when fully phased-in. It also ensures that beneficiary liability for drug cost sharing is limited to \$4,000. The benefit provides beneficiaries with a price discount similar to that offered by many employer-sponsored plans for each prescription purchased—even after the \$5,000 limit is reached. The Administration's plan ensures

low-income beneficiaries assistance with cost-sharing. The Administration estimates the costs of this benefit at \$253 billion over 10 years.

Equity in Benefits for Legal Immigrants: The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) placed eligibility restrictions on benefits to legal immigrants that were unrelated to the goal of moving people from welfare to work. In addition to restrictions on Supplemental Security Income, hundreds of thousands of legal immigrants face restrictions on access to food stamps and medicaid, which presents important health implications for noncitizens as well as citizen children. While subsequent legislation substantially restored benefit eligibility to many immigrants who were in the United States when PRWORA was enacted, the remaining restrictions leave too many immigrants in a precarious position should they suffer a disabling injury or other hardship that affects their ability to support themselves and their families, including their citizen children. For example, children and pregnant women who are legal immigrants are not eligible for health insurance through medicaid or SCHIP for five years. PRWORA restrictions contributed to a 22-percent decline in Medicaid/SCHIP coverage of legal immigrant children between 1995 and 1999. Nearly half of immigrant children lack a regular source of health care, often ending up in expensive emergency rooms. For reasons of equity and public health, these restrictions should be reversed. In addition, although the Administration sought legislation to eliminate the disparate treatment of refugees under our immigration laws, it was not successful. It is important that work continue to provide full parity for Salvadorans, Guatemalans, Hondurans, Haitians, and Liberians with other refugees. It is unjust to treat refugees fleeing repression by some dictators better than those fleeing other equally oppressive regimes. A fair, uniform set of procedures for all of these refugees must be created.

Table IV-4. Pending Policy Proposals

(Budget authority, in millions of dollars)

Program	2000 Enacted	2001		2001 Funding Shortfall	Program Shortfall 2002-2011
		Request	Enacted		
Education:					
After School	453	1,000	846	-154	-1,818
Eisenhower Title II Teaching to High Standards	23	690	485	-205	-2,421
Teaching to High Standards, National Activities	23	255	82	-173	-2,043
School Renovation		1,300	1,200	-100	-1,181
Class Size Reduction	1,300	1,750	1,623	-127	-1,500
Head Start	5,267	6,267	6,200	-67	-791
National Service	437	534	463	-71	-838
National Endowment for the Arts	98	150	105	-45	-531
National Endowment for the Humanities	116	150	120	-30	-354
Civil Rights:					
Outreach for Socially-Disadvantaged Farmers	3	10	3	-7	-83
Civil Rights Division (Justice)	82	98	92	-6	-71
Legal Services Corporation	304	340	330	-10	-118
Equal Employment Opportunity Commission	281	322	304	-18	-213
Fair Housing (HUD)	77	50	46	-4	-47
Environment:					
Natural Resources Conservation Service	661	747	714	-33	-390
Clean Water Action Plan	57	105	76	-29	-342
Climate Change (including Climate Change Technology Initiative and Montreal Protocol)	151	324	173	-151	-1,783
Wetlands Reserve Program	145	259	147	-112	-1,322
Coastal Zone Management Grants	59	159	77	-82	-968
Solar and Renewable Energy	310	410	375	-35	-413
California Bay-Delta	60	60		-60	-708
Everglades Restoration	95	135	118	-17	-201
Columbia River Salmon Restoration	68	91	81	-10	-118
Clean Water Action Plan	196	211	202	-9	-106
Brownfields (HUD)	25	50	25	-25	-295
Superfund	1,270	1,337	1,270	-67	-791
Clean Air Partnership		85		-85	-1,004
Environmental Quality Improvement Program	174	325	174	-151	-1,783
International:					
International Development Association	771	836	775	-61	-720
Global Environment Facility	36	176	108	-68	-803
Other Multilateral Development Banks	172	237	158	-79	-933
Nonproliferation, Anti-terrorism, Demining, and Related Programs	218	353	312	-41	-484
Export/Import Bank	796	1,010	911	-99	-1,169
Middle East		750		-750	-1,200
International Population/Family Planning	328	484	368	-116	-1,370
Other International Funding	2,137	2,390	2,288	-102	-1,204
Counterterrorism:					
Bioterrorism (FDA)	8	12	5	-7	-83
Counterterrorism	822	1,039	927	-112	-1,323
Research, Development, and Technology:					
Agriculture Research Initiatives	159	324	174	-150	-1,771
Bioproducts/Bioenergy	57	94	63	-31	-366
Food and Nutrition Service Research		17	1	-16	-189
Advanced Technology Program	211	200	191	-9	-106
National Science Foundation	3,897	4,572	4,426	-146	-1,724
Connect America's Families		50		-50	-590
DTV Transition for Public Broadcasters	27	110	44	-66	-779

Table IV-4. Pending Policy Proposals—Continued

(Budget authority, in millions of dollars)

Program	2000 Enacted	2001		2001 Funding Shortfall	Program Shortfall 2002–2011
		Request	Enacted		
Law Enforcement:					
COPS/21st Century Policing Initiative	903	1,135	937	–198	–2,338
Gun Prosecutors		150	75	–75	–886
Community Prosecutors	10	50	25	–25	–295
Immigration and Naturalization	2,992	3,270	3,224	–46	–543
Native American Law Enforcement	350	508	391	–117	–1,381
Customs Air and Marine Enforcement	109	157	133	–24	–283
Labor:					
Dislocated Workers	1,589	1,771	1,590	–181	–2,137
International Labor Activities	70	167	148	–19	–224
Youth Opportunity Grants	250	375	275	–100	–1,181
Fathers Work/Families Win		255		–255	–3,011
One-Stop Career Centers	130	174	170	–4	–47
Youth Violence		115	75	–40	–472
Minimum Wage Increase (Older Americans/Youth Activities)		139		–139	–1,641
Health:					
Family Planning	239	274	254	–20	–236
Housing and Community Development:					
HUD Incremental Vouchers	347	643	453	–190	–2,243
Empowerment Zones	70	200	90	–110	–1,299
America’s Private Investment Companies	20	37		–37	–437
Community Development Financial Institutions	115	125	118	–7	–83
Distressed Public Housing (HOPE VI)	575	625	575	–50	–590
Fund for Rural America	60	60	30	–30	–354
Amtrak/Expanded Intercity Rail Service	571	989	521	–468	–5,526
Maintaining Basic Government Services:					
FAA Operations/Safety	5,968	6,592	6,544	–48	–567
IRS Operations and Modernization	8,218	8,939	8,855	–84	–992
Critical Infrastructure Protection (GSA)		15	8	–7	–83
Repair and Alterations of Public Buildings	666	721	679	–42	–496
Construction of Public Buildings	87	679	395	–284	–3,353
Bureau of Indian Affairs Operations	1,640	1,795	1,741	–54	–638

Bipartisan Family Opportunity Act for Children with Disabilities: Children with disabilities have special health care needs; they are more likely to be ill as well as use more hospital days than other children. Because private insurance is often inaccessible or unaffordable for people with disabilities, many parents of children with special needs turn down jobs, raises, and overtime to keep their income low enough so that their children qualify for medicaid. The Family Opportunity Act would establish a new medicaid buy-in option for children with disabilities in families with income up to 300 percent of poverty (\$42,000 for a family of three). The original bill had 78 cosponsors in the Senate (S. 2274) and 140 cosponsors in the House (H.R. 4825).

The Congressional Budget Office cost of the provision is \$2.1 billion over five years and \$7.3 billion over 10 years.

Class Size Reduction: The 2001 appropriation provided \$1.6 billion to help school districts hire and train 37,000 high quality teachers to reduce class sizes in the early grades to an average of 18 students per class. This was the third installment in the bipartisan commitment to hire 100,000 teachers by 2005 to reduce class sizes in grades 1–3.

School Modernization: According to a recent report by the National Center for Education Statistics, half of the nation's public schools need repairs at a total estimated cost of \$127 billion. The 2001 appropriation

established a new \$1.2 billion school renovation grant program that will help schools finance emergency repairs. This initiative was one component of a two-part strategy proposed by the Clinton-Gore Administration this past year. The second component—also essential to adequately address our substandard schools—was legislation that won 230 cosponsors in the House of Representatives that would have authorized Federal tax credits to support \$25 billion in local School Modernization Bonds.

After-School Programs: Statistics provided by the General Accounting Office (GAO), the National Institute on Out-of-School Time, and other surveys show that the lack of affordable, accessible after-school opportunities for school-age children means that an estimated eight million and up to as many as 15 million “latchkey children” on any given day go home to an empty house after school. Studies by the FBI and youth-advocacy groups have found that the peak hours for juvenile crime and victimization are from 2 p.m. to 8 p.m.—hours when youth are most often without supervision. The 2001 appropriation provided \$846 million, compared with the Administration’s request of \$1.0 billion, to fund after-school programs for approximately 1.3 million children. A significant expansion of this program is necessary to meet the needs of “latch-key” children and their parents as well as providing every child in a failing school the opportunity to receive extended learning services.

National Security Investments: While the concerted efforts of the Administration have increased the international affairs budget function from its nadir in FY 1996, overall spending levels have decreased significantly in real terms—almost nine percent since 1993, and over 19 percent since 1986. At the same time, the costs of pursuing U.S. national interests overseas continue to increase, as we attempt to adequately protect our diplomats overseas, continue efforts to encourage peace in the Middle East and transitions to democracy in Eastern Europe and the former Soviet Union, respond to increasingly severe man-made and natural disasters, and increase efforts to control the global spread of HIV/AIDS, stem the flow of drugs to our shore, and address other global problems that directly impact our quality of life in the United States. In order to meet these needs, the effort to gain bipartisan

approval of an international affairs budget that effectively and efficiently funds our pursuit of these national interests should continue.

Since the terrorist bombings of two embassies in Africa in 1998, the Administration has embarked upon an unprecedented program of security initiatives around the world. The Administration initiated a long-term capital program. Because it will take a multi-year effort to address these vulnerabilities, advanced appropriations of \$3.4 billion over the 2002 through 2005 period were proposed to sustain that program.

The leadership provided by the United States in seeking stability in the Middle East serves our overall national interest, because conflict in the region poses such significant threats to U.S. political, economic, and security interests. As an integral part of the ongoing effort to achieve a comprehensive Middle East peace agreement, there is a pending request of \$750 million in supplemental 2001 funding and an additional \$500 million in 2002 funding that has been recommended to assist those countries and parties in the Middle East that undertake constructive steps to move the process forward. It is imperative that the United States continue forward with its efforts to bring the parties together in a workable solution to this conflict, which could in turn open the door to a final comprehensive peace agreement.

Current BEA Baseline Definitions and Estimates

The BEA established different estimating rules for the two major categories of receipts and outlays: those controlled by authorizing legislation (direct spending and receipts) and those controlled through the annual appropriations process (discretionary spending).

Direct Spending and Receipts: Direct spending includes the major entitlement programs, such as social security, medicare, medicaid, Federal employee retirement, unemployment compensation, food stamps and other means-tested entitlements. It also includes such programs as deposit insurance and farm price and income supports, where the Government is legally obligated to make payments

under certain conditions. Receipts and direct spending are alike in that they involve ongoing activities that generally operate under permanent authority (they do not require annual appropriations), and the underlying statutes generally specify the tax rates or benefit levels that must be collected or paid, and who must pay or who is eligible to receive benefits. The current services baseline assumes that receipts and direct spending continue in the future as specified by current law. In most cases, that is what will occur without enactment of new legislation.

The BEA requires that current services estimates assume extension of two types of authority. First, expiring provisions affecting excise taxes dedicated to a trust fund are assumed to be extended at current rates. During the projection period of 2001 through 2011, taxes deposited in the Highway trust fund, Airport and Airways trust fund, Aquatic Resources trust fund, and Leaking Underground Storage Tank trust fund are scheduled to expire. The current services baseline assumes extension of these taxes, increasing receipts by \$287 billion over the period. Second, direct spending programs that will expire under current law are assumed to be extended if their 2001 outlays exceed \$50 million. Programs that will expire under current law but are extended throughout the projection period include food stamps, farm price supports, child nutrition programs, and temporary assistance to needy families (TANF). Provisions of law not specifically covered by the two exceptions discussed above are assumed to expire as scheduled in the current services baseline.

Discretionary Programs: Discretionary programs differ in one important aspect from direct spending programs—Congress usually provides spending authority for discretionary programs one year at a time. The spending authority is normally provided in the form of annual appropriations. Absent appropriations of additional funds in the future, discretionary programs would cease to exist after remaining balances were spent. The BEA requires that the baseline assume that discretionary programs will maintain program resources at the enacted level for the current year in real terms throughout the projection period. The BEA also specifies that non-pay funding be inflated

using the GDP deflator and that pay-related funding be inflated using the rate of growth in average wages for private sector employees.

Current Estimates: The current services baseline surplus, as defined by the BEA, is \$256 billion in 2001 and \$277 billion in 2002 under current assumptions. Table IV-5 presents current services receipts, outlays, and surpluses for the 10-year projection period. They are shown on a unified budget basis. The table also shows the surplus separately for off-budget social security and Postal Service, the Hospital Insurance trust fund, and all other programs. The estimates are based on the economic assumptions presented in Section II of this document, which are summarized in Table IV-8.

Many other assumptions must be made in order to calculate the baseline estimates. These include the number of beneficiaries who receive payments from the major benefit programs and annual cost-of-living adjustments in the indexed programs. Assumptions on baseline caseload projections for the major benefit programs are shown in Table IV-9, while assumptions about various cost-of-living adjustments are shown in Table IV-8. It is also necessary to make assumptions about extension of expiring programs and provisions, as discussed above, and other important program parameters. These include assumptions about the timing and substance of regulations that will be issued over the projection period, the use of administrative discretion provided under current law, and other assumptions about the way programs operate. Table IV-10 provides a list of many of these assumptions and their impact on the baseline estimates. It is not intended to be an exhaustive listing; the variety and complexity of Government programs are too great to provide a complete list. Instead, some of the more important program assumptions are shown.

Receipts. Table IV-6 shows baseline receipts by major source. Total receipts are projected to increase by \$85 billion from 2001 to 2002, and by \$1,224 billion from 2002 to 2011, largely due to assumed increases in incomes resulting from both real economic growth and inflation.

Table IV-5. Current Services Estimates, 2000-2011

(In billions of dollars)

	2000 Actual	Estimate			
		2001	2002	2002-2006	2002-2011
Receipts	2,025	2,125	2,210	12,086	27,587
Outlays:					
Discretionary:					
Department of Defense (DOD)	282	289	291	1,570	3,380
Non-DOD	335	365	390	2,068	4,421
Subtotal, discretionary	617	654	682	3,637	7,801
Mandatory:					
Social security	406	431	451	2,506	5,849
Medicare	194	219	226	1,279	3,030
Medicaid	118	129	143	845	2,135
All other	231	225	239	1,304	2,957
Subtotal, mandatory	949	1,004	1,059	5,935	13,971
Net interest	223	210	192	761	818
Total, outlays	1,789	1,868	1,933	10,333	22,591
Surplus	236	256	277	1,753	4,996
Social security and postal service	150	158	174	1,060	2,551
Medicare hospital insurance	30	27	35	218	532
Remaining on-budget	57	71	69	474	1,914
Memorandum:					
Adjustments for expiring provisions and discretionary anomalies			-10	-86	-271
Resulting surplus	236	256	267	1,666	4,725

Table IV-6. Baseline Receipts by Source

(In billions of dollars)

	Estimate		
	2001	2002	2011
Individual income taxes	1,061	1,097	1,766
Corporation income taxes	212	214	277
Social insurance receipts.	688	725	1,145
Excise taxes	71	74	96
Estate and gift taxes	31	33	50
Customs duties	21	23	36
Miscellaneous receipts:			
Federal reserve deposits	28	33	47
Other	11	11	17
Total, miscellaneous receipts	39	44	64
Total, governmental receipts	2,125	2,210	3,434

Individual income tax receipts are estimated to increase by \$36 billion from 2001 to 2002 under current law. This growth of 3.4 percent is primarily the result of the effect of increased collections resulting from rising personal incomes. Individual income taxes grow at an average annual rate of 5.4 percent between 2002 and 2011. Corporation income taxes under current law are estimated to increase by \$2 billion, or 0.9 percent, from 2001 to 2002 due to higher corporate profits. These taxes continue growing at an annual average growth rate of 2.9 percent from 2002 through 2011.

Social insurance receipts are estimated to increase by \$36 billion between 2001 and 2002 and by an additional \$421 billion between 2002 and 2011. The estimates reflect assumed increases in total wages and salaries paid, and scheduled increases in the social security taxable earnings base from \$80,400 in 2001 to \$126,600 in 2011.

Excise taxes are estimated to increase by \$25 billion from 2001 to 2011, in large part due to increased economic activity. Other baseline receipts (estate and gift taxes, customs duties, and miscellaneous receipts) are projected to increase by \$58 billion from 2001 to 2011.

Outlays. Current services outlays are projected to grow from \$1,868 billion in 2001 to \$1,933 billion in 2002, a 3.4 percent increase. Between 2002 and 2011, they are

projected to grow at an average annual rate of 3.5 percent. Outlays for discretionary programs increase from \$654 billion in 2001 to \$682 billion in 2002, and to \$876 billion in 2011, largely reflecting increases in resources to keep pace with inflation.

Outlays for entitlement and other mandatory programs are estimated to grow from \$1,004 billion in 2001 to \$1,059 billion in 2002, and to \$1,822 billion in 2011, due in large part to changes in the number of beneficiaries and to automatic cost-of-living adjustments and other adjustments for inflation. Social security outlays grow from \$451 billion in 2002 to \$756 billion in 2011, an average rate of 5.9 percent. Over the same period, medicare and medicaid are projected to grow at annual average rates of 6.6 percent and 8.7 percent, respectively, outpacing inflation. Unemployment compensation also grows substantially over the projection period. Spending on agriculture programs declines by \$7 billion from 2001 to 2002, reflecting the expiration of emergency aid. Net interest payments to the public are estimated to decline over the period, reflecting reduced borrowing by the Government resulting from projected surpluses over the period. Toward the end of the period, net interest payments turn negative reflecting earnings on excess balances. Policy decisions will be required on the use of the surpluses that are accumulated as excess balances.

Table IV-7. Change in Baseline Outlays by Category

(In billions of dollars)

	Estimate			Change from:	
	2001	2002	2011	2001-2002	2002-2011
Discretionary:					
Department of Defense (DOD)	289	291	383	2	91
Non-DOD	365	390	493	25	103
Subtotal, discretionary	654	682	876	27	194
Mandatory:					
Social Security	431	451	756	20	305
Medicare	219	226	402	8	175
Medicaid	129	143	303	14	160
Federal employee retirement and disability	81	84	126	3	42
Unemployment compensation	22	26	48	3	22
Agriculture	20	13	10	-7	-3
Undistributed offsetting receipts	-47	-51	-70	-4	-19
All other	148	166	247	18	81
Subtotal, mandatory	1,004	1,059	1,822	55	763
Net interest	210	192	-75	-18	-267
Total, outlays	1,868	1,933	2,623	64	691

Table IV-8. Summary of Economic Assumptions
(Dollar amounts in billions)

	2000 Actual	Estimate										
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Gross Domestic Product (GDP):												
Levels, dollar amounts in billions:												
Current dollars	9,830	10,402	10,954	11,543	12,163	12,817	13,501	14,208	14,936	15,692	16,487	17,321
Real, chained (1996) dollars	9,244	9,569	9,876	10,192	10,518	10,855	11,198	11,541	11,883	12,227	12,582	12,946
Percent change, year over year:												
Current dollars	7.4	5.8	5.3	5.4	5.4	5.4	5.3	5.2	5.1	5.1	5.1	5.1
Real, chained (1996) dollars	5.4	3.5	3.2	3.2	3.2	3.2	3.2	3.1	3.0	2.9	2.9	2.9
Inflation measures (percent change, year/year):												
GDP chained price index	1.9	2.1	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Consumer price index (all urban)	3.3	2.9	2.5	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Unemployment rate, civilian (percent)	4.1	4.1	4.4	4.6	4.7	4.8	4.9	5.0	5.1	5.1	5.1	5.1
Interest rates (percent):												
91-day Treasury bills	5.6	6.0	5.8	5.5	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
10-year Treasury notes	6.2	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Memorandum												
Related programmatic assumptions:												
Automatic benefit increases (percent):												
Social security and veterans pensions	2.4	3.5	2.5	2.5	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Federal employee retirement	2.4	3.5	2.5	2.5	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Food stamps	1.8	1.8	3.1	2.5	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Insured unemployment rate	1.7	1.7	1.9	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.1

Table IV-9. Beneficiary Projections for Major Benefit Programs
(Annual average, in thousands)

	2000 Actual	Estimate										
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Federal family education loans	3,847	4,003	4,112	4,264	4,422	4,587	4,760	4,941	5,129	5,327	5,534	5,751
Federal direct student loans	1,902	2,053	1,960	2,031	2,105	2,182	2,263	2,348	2,436	2,527	2,623	2,724
Foster care and adoption assistance	517	551	592	639	689	742	800	860	926	999	1,079	1,167
Medicaid	33,400	33,900	34,300	34,700	35,100	35,500	35,900	36,300	36,700	37,200	37,600	38,000
State Children's Health Insurance Program	2,100	2,600	2,900	3,200	3,300	3,000	2,900	2,700	2,600	2,400	2,500	2,500
Medicare-eligible military retiree health benefits ¹				1,617	1,646	1,666	1,684	1,701	1,717	1,724	1,727	1,740
Medicare:												
Hospital insurance	39,131	39,581	40,016	40,493	41,028	41,601	42,232	42,985	43,879	44,820	45,723	46,791
Supplementary medical insurance	37,254	37,673	38,007	38,377	38,803	39,255	39,760	40,361	41,124	41,946	42,714	43,550
Railroad retirement	682	664	645	626	609	593	578	565	553	542	534	527
Federal civil service retirement	2,372	2,387	2,408	2,432	2,459	2,488	2,518	2,544	2,567	2,590	2,613	2,636
Military retirement	1,950	1,964	1,977	1,990	2,000	2,010	2,018	2,026	2,034	2,039	2,044	2,049
Unemployment compensation	6,920	7,360	7,890	8,250	8,390	8,570	8,760	8,980	9,170	9,200	9,260	9,330
Food stamps	17,163	17,481	18,156	18,703	18,822	19,019	19,247	19,476	19,692	19,812	19,877	19,973
Child nutrition	29,686	30,208	30,739	31,239	31,653	32,015	32,345	32,674	33,008	33,350	33,697	34,033
Supplemental security income (SSI):												
Aged	1,203	1,185	1,172	1,162	1,153	1,143	1,134	1,124	1,113	1,102	1,091	1,082
Blind/disabled	5,125	5,142	5,220	5,313	5,414	5,519	5,625	5,728	5,826	5,917	6,001	6,078
Subtotal, SSI	6,328	6,327	6,392	6,475	6,567	6,662	6,759	6,852	6,939	7,019	7,092	7,160
Child care and development fund ²	1,816	2,058	2,116	2,144	2,153	2,153	2,153	2,153	2,153	2,153	2,153	2,153
Social security (OASDI):												
Old age and survivor insurance	38,205	38,860	39,201	39,546	39,914	40,361	40,860	41,400	42,019	42,823	43,797	44,802
Disability insurance	6,559	6,741	6,982	7,262	7,599	7,963	8,342	8,730	9,116	9,471	9,782	10,104
Veterans compensation	2,607	2,632	2,681	2,720	2,750	2,773	2,784	2,790	2,790	2,782	2,767	2,744
Veterans pensions	635	610	587	568	550	535	522	510	501	493	486	481

¹ Mandatory funding of this program begins in 2003.

² Includes mandatory child care entitlement to States, discretionary Child Care and Development Block Grant, and TANF transfers.

Table IV-10. Impact of Regulations, Expiring Authorizations, and Other Assumptions in the Baseline
(In millions of dollars)

Category	Estimate										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
REGULATIONS											
Old age and survivors insurance (OASI) and disability insurance (DI):											
Disability redesign prototypes	70	155	360	751	1,247	1,776	2,321	2,887	3,472	4,066	4,684
Ticket to Work and Self-Sufficiency (767P)		2	2	3	-10	-20	-29	-41	-64	-101	-101
Administrative procedures for imposing penalties for false or misleading statements	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
Reduction of Title II benefits under family maximum in cases of dual enrollment	13	14	14	15	16	17	18	19	20	21	23
Trial work period	7	6	5	5	4	3	3	2	1	1	.....
Medicare, HI:											
BIPA Codifying regulations	2,780	5,035	3,180	3,330	3,460	3,160	2,670	2,640	2,790	2,910	3,080
BBRA Codifying Regulations	2,675	2,210	1,019	665	477	660	633	649	676	NA	NA
BBA 1997 Codifying Regulations	-41,680	-49,460	-56,135	-62,905	-68,620	-74,130	-80,125	NA	NA	NA	NA
Disability redesign prototypes		1	14	38	88	174	286	407	532	660	799
Medicare, SMI:											
BIPA Codifying regulations	2,030	3,260	3,900	4,520	5,680	6,705	7,165	7,555	8,140	8,700	9,450
BBRA Codifying Regulations	3,943	2,992	1,624	468	210	289	255	265	275	NA	NA
BBRA Administrative Clarification Codifying Regulations	800	930	1,150	1,510	1,790	1,860	2,060	2,240	2,450	NA	NA
BBA 1997 Codifying Regulations	4,865	8,430	11,675	11,760	11,965	12,210	12,560	NA	NA	NA	NA
Disability redesign prototypes		1	13	36	85	170	284	409	541	680	833
Medicare, HI and SMI:											
Identification of potential organ, tissue, and eye donors	115	160	200	240	NA	NA	NA	NA	NA	NA	NA
Medicare clinical trials expansion	620	690	790	840	900	960	1,020	1,090	1,160	1,230	NA
Extending TRICARE coverage to medicare-eligible military retirees		110	330	380	410	440	460	490	520	550	NA
Medicaid:											
BIPA Codifying regulations	220	650	-1,980	-2,910	-4,100	-4,970	-5,520	-6,080	-6,700	-7,100	-7,520
BBRA Codifying Regulations	375	279	158	114	99	107	110	119	123	128	NA
BBA 1997 Codifying Regulations	-660	-1,071	-1,628	-1,825	-1,985	-2,126	-2,350	NA	NA	NA	NA
SSI childhood disability standard to implement welfare reform (Medicaid effect)	-125	-135	-150	NA	NA	NA	NA	NA	NA	NA	NA
Removal of the 100 hour limitation on employment	140	160	175	190	210	225	245	265	285	NA	NA
1902 (R) (2) regulation	40	125	220	230	245	255	270	280	295	310	325
Disability redesign prototypes	3	40	120	310	576	876	1,204	1,553	1,928	2,329	2,753
Medicare and Medicaid:											
Net Medicaid and Medicare effects of upcoming SSA regulation on the substantial gainful activity earnings threshold	-9	-11	-13	-19	-38	-46	-60	-83	-89	NA	NA
Supplemental security income (SSI):											
Disability redesign prototypes	4	30	81	188	335	437	510	664	779	893	1,084
Ticket to Work and Self-Sufficiency (767P)		-1	3	4	-6	-16	-27	-36	-50	-65	-65

**Table IV-10. Impact of Regulations, Expiring Authorizations, and Other Assumptions in the Baseline—
Continued**

(In millions of dollars)

Category	Estimate										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Title XVI cross-program recovery (746P)	-15	-15	-15	-40	-30	-15	-15	-15	-15	-20	-20
Administrative procedures for imposing penalties for false or misleading statements	-2	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
Student earned income exclusion	3	3	3	3	4	4	4	4	5	5	5
Veterans medical care:											
Nursing home co-pays		-41	-82	-82	-82	-82	-82	-82	-82	-82	-82
Environmental Protection Agency:											
Pesticide registration fees		-25	-26	-27	-28	-30	-31	-32	-34	-35	-37
Pesticide tolerance fees		-40	-57	-43	-14						
EXPIRING AUTHORIZATIONS											
Provisions extended in the baseline (effect of extension):											
Spending:											
Child care entitlement to States			2,717	2,717	2,717	2,717	2,717	2,717	2,717	2,717	2,717
Child nutrition:											
Summer food service program				377	403	427	451	478	505	534	565
State administrative expenses				144	152	160	167	174	182	190	198
CCC commodity program assistance			9,641	8,555	8,403	8,488	8,437	8,383	8,372	8,346	8,313
Compact of free association				144	144	144	144	144	144	144	144
Food stamps:											
Benefit costs			18,187	18,983	19,951	20,939	21,875	22,913	23,853	24,797	25,698
State administrative expenses			2,034	2,099	2,165	2,234	2,377	2,451	2,529	2,608	2,716
Employment and training			337	342	347	352	358	363	369	375	381
Other program costs			71	69	69	70	70	72	72	72	74
Nutrition assistance for Puerto Rico			1,370	1,407	1,445	1,484	1,524	1,565	1,607	1,650	1,695
Food donations on Indian reservations			75	76	78	79	81	83	84	86	88
The emergency food assistance program commodities			100	100	100	100	100	100	100	100	100
Fund for Rural America				32	43	53	61	61	61	61	61
Future Agriculture and Food Systems initiative				6	48	90	120	120	120	120	120
NAFTA transitional trade adjustment assistance		30	60	69	70	72	73	74	76	78	79
Promoting safe and stable families		46	241	293	299	305	305	305	305	305	305
Temporary assistance for needy families (TANF):											
State family assistance grants (SFAG)			16,489	16,489	16,489	16,489	16,489	16,489	16,489	16,489	16,489
SFAG to territories			78	78	78	78	78	78	78	78	78
Bonus to reward high performing States				200	200	200	200	200	200	200	200
Bonus to reward decrease in illegitimacy			100	100	100	100	100	100	100	100	100
Tribal work program			8	8	8	8	8	8	8	8	8
Trade adjustment assistance		282	323	355	367	378	390	402	415	428	441
Revenues:											
Airport and airway trust fund taxes ²								14,476	15,923	16,896	17,898
Aquatic resources trust fund taxes ²						310	318	324	331	337	344
Highway trust fund taxes ²						33,678	34,910	35,869	36,854	37,854	38,873
Leaking Underground Storage Tank taxes ²					104	211	214	221	225	229	235

**Table IV-10. Impact of Regulations, Expiring Authorizations, and Other Assumptions in the Baseline—
Continued**

(In millions of dollars)

Category	Estimate										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Provisions not extended in the baseline (effect of extension) ³ .											
Spending:											
Census: survey of program dynamics			10	10	10	10	10	10	10	10	10
Civil service retirement:											
Increased non-Postal agency contributions for employees of 1.51 percent			-316	-373	-327	-287	-242	-192	-138	-76	-22
Medicare, HI:											
Reduction in PPS Capital Payments (BBA 4402)			-180	-220	-230	-240	-260	-270	-280	-290	NA
Reduction in PPS Capital Payments (BBA 4412)			-130	-150	-160	-170	-180	-190	-190	-200	NA
Medicare, SMI:											
Medicare low income premium assistance			80	90	100	110	120	130	140	150	NA
Medicaid:											
Emergency services for undocumented aliens		25	25	25	25	25	25	25	25	25	NA
Spectrum auction authority									-500	-500	-500
Veterans medical care: pharmaceutical copay			-120	-120	-120	-120	-120	-220	-220	-220	-220
OTHER IMPORTANT PROGRAM ASSUMPTIONS											
Child support enforcement (CSE):											
Effect of hold harmless payments to States	10	10									
Effect of enhanced automated system matching rates	32	13									
Penalties for Family Support Act systems and State-wide Disbursement Unit requirements	-148	-194	-100	-15							
Effect of enhanced rate of paternity testing	8	8	9	9	10	10	10	11	11	12	12
Food stamps:											
Tax offset, recoupment, and general claims collection	-177	-177	-177	-177	-177	-177	-177	-177	-177	-177	-177
Quality control liabilities	-68	-72	-77	-76	-80	-87	-92	-96	-100	-104	-108
Allocation of administrative costs between public assistance programs	-197	-197	-197	-197	-197	-197	-197	-197	-197	-197	-197
State incentive payments	42	46	47	49	50	52	53	55	56	58	60
Non-employment and training costs of BBA changes to work requirement for able-bodied adults without dependents	90	105	110	115	120	125	130	135	140	145	150
Administrative actions to promote employment and training program	15	25	30	31	32	33	34	35	36	37	38
Medicare: Medicare Integrity Program (MIP) ⁴	-10,660	-10,970	-11,290	-11,290	-11,290	-11,290	-11,290	-11,290	-11,290	NA	NA
Medicaid:											
Home and Community Care for the Frail Elderly (Section 1929)	100	110	120	130	140	150	160	170	NA	NA	NA
Financial management recoveries	-171	-187	-204	-223	-244	-267	-291	-316	-343	-373	-405
Vaccines for Children, total program costs	775	796	792	784	821	853	796	813	819	844	844

**Table IV-10. Impact of Regulations, Expiring Authorizations, and Other Assumptions in the Baseline—
Continued**

(In millions of dollars)

Category	Estimate										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Personal Responsibility and Work Opportunity Reconciliation Act of 1996	-800	-1,650	-1,885	NA	NA	NA	NA	NA	NA	NA	NA
Allocation of administrative costs between public assistance programs	311	355	393	432	471	509	549	593	640	692	747
48 Hour Maternity Stay	20	20	20	20	20	20	20	NA	NA	NA	NA
Adoption and Safe Families Act of 1997	2	2	2	2	3	3	4	NA	NA	NA	NA
SSI change in effective date for benefits (medicaid effect)	10	15	15	15	15	20	20	20	NA	NA	NA
HHS Inspector General: Audit and Investigative Recoveries	-840	-980	-1,050	-1,050	NA	NA	NA	NA	NA	NA	NA
State children's health insurance program (Title XXI)	4,035	3,355	4,072	4,260	4,290	4,370	4,460	4,560	4,600	5,030	5,160
Approved Demonstrations: ⁵											
Medicare:											
Costs	1,314	3,499	5,835	5,523	86	.....	.....	.....	.....	.....	.....
Replacement Benefits	1,328	3,528	5,879	5,565	88	.....	.....	.....	.....	.....	.....
Medicaid:											
Costs	29,373	26,352	1,664	1,524	10	1	.....	.....	.....	.....	.....
Replacement Benefits	29,373	26,352	1,664	1,524	10	1	.....	.....	.....	.....	.....
Joint medicare and medicaid:											
Costs	2,234	2,308	2,337	2,307	.....	.....	.....	.....	.....	.....	.....
Replacement Benefits	2,052	2,115	2,144	2,107	.....	.....	.....	.....	.....	.....	.....
OASI, DI, SSI:											
Expansion of tax refund offset to debts previously written off (OASI, DI)	-44	-44	-44	-44	-44	-44	-44	-44	-44	-44	-44
Performance of continuing disability reviews (baseline levels) (OASI, DI, SSI)	-485	-975	-1,425	-1,820	-2,260	-2,520	-2,735	-3,160	-3,480	-3,795	-4,235
Collection of overpayments:											
OASI	-981	-976	-973	-971	-971	-971	-971	-971	-971	-971	-971
DI	-335	-353	-361	-366	-368	-368	-368	-368	-368	-368	-368
SSI	-783	-822	-842	-851	-856	-856	-856	-856	-856	-856	-856
Debts written off as uncollectable (no effect on outlays):											
OASI	94	93	92	91	90	90	90	90	90	90	90
DI	272	287	294	297	299	299	299	299	299	299	299
SSI	526	488	450	412	374	374	374	374	374	374	374
DI:											
Payments to states for vocational rehabilitation	86	73	63	53	37	41	45	49	53	57	61
Limitation on prisoner's benefits	-38	-38	-43	-46	-51	-57	-62	-66	-73	-78	-82
Research and demonstration projects	6	12	12	12	12	6	.....	.....	.....	.....	.....
OASI: limitation on prisoner's benefits	-16	-17	-18	-20	-22	-25	-26	-29	-31	-33	-35
SSI:											
Payments from states for state supplemental benefits	-3,554	-3,660	-3,785	-3,914	-4,073	-4,168	-4,263	-4,387	-4,139	-4,647	-4,780
Payments for state supplemental benefits	3,554	3,660	3,785	3,914	4,073	4,168	4,263	4,387	4,139	4,647	4,780

**Table IV-10. Impact of Regulations, Expiring Authorizations, and Other Assumptions in the Baseline—
Continued**

(In millions of dollars)

Category	Estimate										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Fees for administration of State supplement:											
Treasury share	150	152	153	155	157	159	160	162	164	165	166
SSA share	100	106	115	123	132	141	151	160	157	182	192
Research and demonstration projects	37	41	30	30	30	30	30	30	30	30	30
Payments to states for vocational rehabilitation	71	58	59	59	57	54	52	49	51	53	55
Performance of non-disability redeterminations	-279	-221	-27	-17	-10	-8	-6	-4	-2	.....	.....
Ticket to work grant programs:											
Infrastructure grant program	16	25	30	35	40	41	42	43	44	45	46
Demonstration to maintain independence and employ- ment .....	.....	4	11	15	18	24	18	13	9	7	6
TANF:											
Transfers from TANF to SSBG	600	500	600	700	700	700	700	700	700	.....	.....

NA = Not available.

¹ Not shown on the table are medicare and medicaid regulations that have not been specifically priced.² Net of income offsets.³ See Table 2 in this Section for a listing of additional expiring provisions.⁴ These amounts reflect gross MIP savings that are not offset with MIP costs.⁵ Estimates for demonstrations reflect Federal costs of the projects. Replacement benefits represent the program costs in the absence of the demonstrations. The differences represent the net impact of the demonstration projects on the baseline. DoD Medicare Subvention demonstration is reflected under BBA97 codifying regulations.

Table IV-11. Baseline Receipts by Source
(In billions of dollars)

Source	2000 Actual	Estimate										
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Individual income taxes	1,004.5	1,061.3	1,097.1	1,139.4	1,188.3	1,250.3	1,319.6	1,396.8	1,479.4	1,568.4	1,663.6	1,765.7
Corporation income taxes	207.3	211.9	213.7	216.8	221.8	230.1	238.8	248.1	256.9	264.0	270.6	277.4
Social insurance and retirement receipts	652.9	688.4	724.8	763.4	801.2	851.2	891.7	938.0	983.5	1030.8	1088.2	1145.3
Excise taxes	68.9	71.4	74.2	76.4	78.5	80.9	82.8	85.2	87.7	90.3	93.1	96.0
Estate and gift taxes	29.0	31.2	33.0	35.5	38.1	36.4	36.7	38.5	41.3	43.9	46.7	49.6
Customs duties	19.9	21.4	23.2	24.4	25.0	26.1	27.6	29.1	30.4	32.7	34.2	35.9
Miscellaneous receipts:												
Federal Reserve System deposit of earnings ...	32.3	27.9	32.6	33.4	34.8	36.4	37.9	39.5	41.4	43.3	45.2	47.2
Other	10.5	11.2	11.2	12.0	12.8	13.3	14.2	13.3	13.9	14.7	15.6	16.5
Total, miscellaneous receipts	42.8	39.2	43.8	45.4	47.6	49.7	52.1	52.8	55.3	58.0	60.8	63.7
Total, governmental receipts	2,025.2	2,124.6	2,209.7	2,301.3	2,400.6	2,524.7	2,649.3	2,788.4	2,934.4	3,088.1	3,257.2	3,433.6

Table IV-12. Baseline Outlay Totals by Category
(In billions of dollars)

Category	2000 Actual	Estimate										
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Outlays:												
Discretionary:												
Defense	295.0	303.7	306.7	321.1	331.0	340.7	350.6	360.1	369.2	379.5	390.2	401.3
Non-Defense	322.0	350.5	374.9	388.7	397.5	408.0	418.3	429.8	441.7	452.7	464.9	474.7
Subtotal, discretionary	617.0	654.1	681.5	709.8	728.5	748.7	768.9	789.9	810.9	832.2	855.1	876.0
Mandatory:												
Social Security	406.0	431.4	451.3	473.6	498.7	526.4	556.2	588.9	624.5	664.6	708.7	756.0
Medicare and Medicaid	312.0	347.7	369.2	394.2	421.6	456.8	482.6	522.2	561.5	603.8	649.1	704.3
Means-tested entitlements ¹	105.2	108.7	114.5	120.2	125.0	132.3	134.6	136.5	144.1	148.8	154.1	162.1
Other mandatory	125.5	116.2	124.2	122.8	129.3	147.9	153.5	160.3	172.6	182.8	192.4	199.5
Subtotal, mandatory	948.8	1,004.0	1,059.2	1,110.8	1,174.4	1,263.3	1,326.8	1,407.9	1,502.7	1,599.9	1,704.3	1,822.0
Net interest	223.2	210.2	192.0	173.8	154.6	132.8	107.8	81.2	51.4	18.3	-19.3	-74.6
Total Outlays	1,789.0	1,868.3	1,932.8	1,994.4	2,057.5	2,144.8	2,203.5	2,279.1	2,364.9	2,450.4	2,540.1	2,623.4

¹ Food stamps, TANF/family support, SSI, child nutrition, EITC, veterans pensions, children's health insurance fund.

Table IV–13. Baseline Outlays by Function
(In billions of dollars)

Function	2000 Actual	Estimate										
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
National defense:												
Department of Defense—Military	281.2	288.0	290.4	304.2	313.7	323.1	332.7	341.9	350.7	360.5	370.9	381.5
Other	13.3	15.3	16.1	16.6	16.7	17.1	17.2	17.6	17.9	18.4	18.8	19.2
Total, National defense	294.5	303.2	306.5	320.8	330.5	340.1	349.9	359.5	368.6	378.9	389.6	400.7
International affairs	17.2	15.5	18.7	18.4	18.3	18.6	19.1	19.8	20.5	21.1	21.8	22.4
General science, space, and technology	18.6	19.7	20.7	21.4	22.1	22.6	23.1	23.6	24.1	24.7	25.3	25.9
Energy	-1.1	-0.6	-0.3	*	-0.7	-0.7	-0.3	-0.4	2.0	2.1	2.2	2.4
Natural resources and environment	25.0	27.5	29.7	30.7	31.4	32.2	33.1	34.1	35.1	36.0	37.0	38.0
Agriculture	36.6	25.5	18.8	15.5	14.5	14.6	15.0	15.4	15.8	16.3	16.8	17.1
Commerce and housing credit	3.2	7.1	6.1	3.9	3.4	4.2	3.8	5.6	5.5	6.7	7.3	7.1
Transportation	46.9	51.1	55.3	58.2	60.5	62.8	64.6	66.2	67.9	69.7	71.3	73.1
Community and regional development	10.6	10.6	11.5	11.7	11.9	11.9	11.9	12.0	12.2	12.5	12.8	13.2
Education, training, employment, and social services	59.4	66.1	76.7	80.5	81.5	83.3	85.5	87.8	90.4	92.9	95.7	95.8
Health	154.5	172.9	190.5	208.6	224.6	241.7	259.7	279.4	300.6	323.1	348.9	373.9
Medicare	197.1	222.1	229.8	244.2	257.8	278.0	287.8	309.9	330.2	352.4	375.3	407.0
Income security	247.9	258.3	272.4	285.7	297.2	312.2	322.9	333.1	349.3	361.6	375.4	392.9
Social security	409.4	435.0	454.9	477.3	502.5	530.3	560.3	593.1	628.9	669.2	713.4	760.9
Veterans benefits and services	47.1	45.3	50.8	53.3	56.0	61.0	60.6	60.3	64.8	67.8	69.9	72.1
Administration of justice	28.0	29.4	32.4	33.1	35.3	36.2	37.1	38.3	39.5	40.8	42.2	43.6
General government	13.2	16.7	16.9	17.0	17.7	18.0	18.4	19.1	19.6	20.1	20.7	21.3
Net interest	223.2	210.2	192.0	173.8	154.6	132.8	107.8	81.2	51.4	18.3	-19.3	-74.6
Allowances		-0.1	-*	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Undistributed offsetting receipts:												
Employer share, employee retirement (on- budget)	-30.2	-31.3	-32.6	-36.2	-37.6	-39.2	-40.8	-42.4	-44.3	-46.1	-48.0	-50.0
Employer share, employee retirement (off- budget)	-7.6	-8.3	-8.5	-9.2	-9.9	-10.7	-11.4	-12.2	-13.1	-14.0	-15.0	-16.2
Rents and royalties on the Outer Continental Shelf	-4.6	-6.1	-5.2	-4.5	-4.3	-4.1	-3.9	-3.8	-3.6	-3.5	-3.4	-3.3
Sale of major assets				-0.3								
Other undistributed offsetting receipts	-0.2	-1.6	-4.4	-9.7	-9.7	-1.3	-0.7	-0.7	-0.7	-*	-*	-*
Total, Undistributed offsetting receipts	-42.6	-47.2	-50.7	-59.8	-61.4	-55.3	-56.8	-59.1	-61.7	-63.7	-66.5	-69.6
Total	1,789.0	1,868.3	1,932.8	1,994.4	2,057.5	2,144.8	2,203.5	2,279.1	2,364.9	2,450.4	2,540.1	2,623.4

* \$50 million or less.

Table IV-14. Baseline Outlays by Agency
(In billions of dollars)

Agency	2000 Actual	Estimate										
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Legislative Branch	2.9	3.1	3.0	3.1	3.2	3.3	3.4	3.5	3.6	3.7	3.8	3.9
Judicial Branch	4.1	4.5	4.6	4.7	4.8	5.0	5.2	5.3	5.5	5.7	5.9	6.1
Agriculture	75.7	69.1	64.1	63.4	64.4	66.5	69.0	71.6	74.1	76.9	79.8	82.1
Commerce	7.8	5.8	5.0	5.2	5.1	5.1	5.1	5.3	5.5	5.8	6.0	6.2
Defense—Military	281.2	288.0	290.4	304.2	313.7	323.1	332.7	341.9	350.7	360.5	370.9	381.5
Education	34.0	38.2	45.2	48.5	49.3	50.2	51.2	52.4	53.7	54.9	56.2	54.7
Energy	15.0	16.8	17.6	18.3	18.6	18.9	19.1	19.5	20.4	20.8	21.3	21.8
Health and Human Services	382.6	429.4	457.6	486.3	516.5	554.3	582.6	624.8	666.6	711.5	760.0	818.3
Housing and Urban Development	30.8	37.2	35.1	35.3	34.5	35.0	35.6	36.5	36.9	37.2	37.9	38.7
Interior	8.0	9.0	10.1	10.4	10.6	11.0	11.3	11.7	12.0	12.4	12.8	13.2
Justice	19.6	20.5	22.9	23.4	23.8	24.3	25.1	25.9	26.7	27.5	28.4	29.4
Labor	31.4	35.0	39.6	43.1	44.8	47.3	50.0	52.9	56.0	58.2	60.6	63.2
State	6.8	9.4	9.2	8.9	8.8	8.9	9.1	9.3	9.6	9.8	10.1	10.4
Transportation	46.0	50.6	55.0	57.7	59.9	62.2	64.0	65.6	67.3	69.0	70.6	72.3
Treasury	391.2	389.5	384.9	381.2	379.5	374.7	368.4	363.1	356.2	347.7	334.5	305.1
Veterans Affairs	47.1	45.2	50.7	53.2	55.9	60.9	60.5	60.2	64.7	67.7	69.8	72.0
Corps of Engineers	4.3	4.4	4.7	4.8	4.9	5.0	5.2	5.3	5.5	5.6	5.8	5.9
Other Defense Civil Programs	32.9	34.4	35.4	38.2	39.3	40.5	41.6	42.9	44.2	45.4	46.7	48.0
Environmental Protection Agency	7.2	7.5	7.7	7.9	8.1	8.4	8.6	8.8	9.1	9.3	9.5	9.7
Executive Office of the President	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Federal Emergency Management Agency	3.1	3.1	2.9	3.1	2.9	2.8	2.6	2.4	2.4	2.4	2.5	2.6
General Services Administration	*	0.6	-0.1	0.4	0.6	0.7	0.7	0.7	0.7	0.7	0.8	0.8
International Assistance Programs	12.1	11.5	12.6	12.6	12.6	12.8	13.1	13.5	13.9	14.3	14.7	15.0
National Aeronautics and Space Administration	13.4	13.8	14.3	14.7	15.2	15.6	15.9	16.3	16.7	17.1	17.5	18.0
National Science Foundation	3.5	3.9	4.3	4.5	4.7	4.8	4.8	4.9	5.0	5.2	5.3	5.4
Office of Personnel Management	48.7	51.0	53.4	56.3	59.9	63.6	67.4	71.5	76.1	80.6	86.4	90.5
Small Business Administration	-0.4	-0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.1	1.1
Social Security Administration	441.8	463.8	487.3	511.1	537.8	569.8	599.0	630.8	670.9	712.9	758.9	811.4
Other Independent Agencies	10.6	12.5	17.8	16.3	16.9	18.4	19.5	21.3	23.5	24.9	26.1	26.6
Allowances .....	.....	0.6	0.4	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.5
Undistributed Offsetting Receipts	-172.8	-189.3	-204.4	-224.1	-240.5	-250.1	-269.2	-291.0	-314.5	-339.2	-364.4	-391.4
Total	1,789.0	1,868.3	1,932.8	1,994.4	2,057.5	2,144.8	2,203.5	2,279.1	2,364.9	2,450.4	2,540.1	2,623.4

* \$50 million or less.

Table IV-15. Baseline Discretionary Budget Authority by Function
(In billions of dollars)

Function	2000 Actual	Estimate										
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
National defense:												
Department of Defense—Military	287.7	296.1	306.0	314.4	323.2	332.2	341.5	351.1	361.1	371.3	381.9	392.8
Other	13.4	15.0	15.3	15.7	16.0	16.4	16.8	17.2	17.6	18.0	18.4	18.8
Total, National defense	301.2	311.0	321.3	330.1	339.2	348.6	358.3	368.3	378.6	389.3	400.2	411.6
International affairs	23.5	22.7	23.2	23.7	24.3	24.9	25.5	26.1	26.7	27.3	27.9	28.6
General science, space, and technology	19.2	20.8	21.3	21.8	22.3	22.8	23.3	23.9	24.4	25.0	25.6	26.2
Energy	2.7	3.1	2.9	2.9	3.0	3.1	3.5	3.6	4.2	4.3	4.4	4.5
Natural resources and environment	24.7	28.8	29.7	30.4	31.3	32.2	33.1	34.1	35.1	36.1	37.2	38.3
Agriculture	4.5	4.8	5.3	5.4	5.6	5.8	5.9	6.1	6.3	6.5	6.7	6.9
Commerce and housing credit	7.1	2.9	3.0	3.0	2.9	2.8	2.6	3.5	3.7	3.8	3.9	4.1
Transportation	15.2	19.1	19.7	20.3	20.9	21.6	22.2	22.9	23.6	24.4	25.1	25.9
Community and regional development	13.7	11.0	11.8	12.1	12.4	12.6	12.9	13.2	13.5	13.8	14.1	14.4
Education, training, employment, and social services	44.4	61.1	64.4	65.8	67.2	68.7	70.2	71.7	73.3	74.9	76.5	78.2
Health	33.8	38.9	39.8	40.7	41.7	42.7	43.7	44.8	45.8	46.9	48.1	49.2
Medicare	3.0	3.4	3.5	3.7	3.8	4.0	4.2	4.3	4.6	4.8	5.0	5.3
Income security	30.0	39.5	44.1	45.6	47.0	48.5	49.7	50.8	52.0	53.2	54.6	55.9
Social security	3.2	3.4	3.6	3.7	3.8	4.0	4.1	4.3	4.4	4.6	4.7	4.9
Veterans benefits and services	20.9	22.5	23.4	24.2	25.0	25.9	26.8	27.7	28.7	29.7	30.7	31.9
Administration of justice	27.0	30.0	31.1	32.0	33.1	34.2	35.3	36.5	37.7	39.0	40.3	41.6
General government	12.4	14.0	14.8	15.3	15.9	16.4	16.9	17.5	18.1	18.8	19.5	20.2
Allowances		-0.6										
Total	586.6	636.5	662.9	680.6	699.4	718.5	738.2	759.4	780.8	802.4	824.6	847.7

Table IV-16. Baseline Discretionary Budget Authority by Agency
(In billions of dollars)

Agency	2000 Actual	Estimate										
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Legislative Branch	2.5	2.7	2.8	2.9	3.0	3.1	3.2	3.3	3.4	3.5	3.6	3.8
Judicial Branch	3.7	4.0	4.1	4.3	4.4	4.6	4.7	4.9	5.0	5.2	5.4	5.6
Agriculture	16.9	19.0	19.9	20.4	21.0	21.6	22.2	22.8	23.5	24.2	24.8	25.6
Commerce	8.7	5.1	5.1	5.2	5.3	5.3	5.2	5.5	5.7	5.9	6.1	6.4
Defense—Military	287.7	296.1	306.0	314.4	323.2	332.2	341.5	351.1	361.1	371.3	381.9	392.8
Education	29.4	39.9	42.7	43.6	44.5	45.4	46.4	47.4	48.4	49.4	50.5	51.5
Energy	17.8	19.7	19.9	20.2	20.7	21.2	21.7	22.2	23.2	23.7	24.2	24.8
Health and Human Services	45.5	53.9	55.2	56.5	57.8	59.2	60.7	62.2	63.7	65.3	66.9	68.6
Housing and Urban Development	23.1	30.8	34.9	36.1	37.3	38.5	39.3	40.2	41.0	42.0	43.0	44.0
Interior	8.5	10.2	10.7	10.8	11.1	11.4	11.8	12.2	12.5	12.9	13.3	13.7
Justice	18.8	21.0	21.7	22.4	23.1	23.9	24.6	25.4	26.3	27.1	28.0	28.9
Labor	8.8	11.9	12.3	12.7	13.1	13.5	13.9	14.3	14.7	15.0	15.4	15.8
State	7.8	7.5	7.7	7.9	8.1	8.3	8.5	8.8	9.0	9.2	9.4	9.7
Transportation	14.5	18.5	19.1	19.7	20.3	20.9	21.5	22.2	22.9	23.6	24.3	25.1
Treasury	12.5	14.0	14.6	15.1	15.7	16.3	16.8	17.5	18.1	18.8	19.5	20.2
Veterans Affairs	20.8	22.4	23.3	24.1	24.9	25.8	26.7	27.6	28.6	29.6	30.5	31.7
Corps of Engineers	4.1	4.6	4.7	4.8	4.9	5.1	5.2	5.4	5.5	5.7	5.8	6.0
Other Defense Civil Programs	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Environmental Protection Agency	7.6	7.8	8.0	8.2	8.5	8.7	8.9	9.1	9.4	9.6	9.9	10.2
Executive Office of the President	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Federal Emergency Management Agency	3.9	2.4	2.5	2.5	2.6	2.6	2.7	2.8	2.8	2.9	3.0	3.0
General Services Administration	—*	0.5	0.8	0.8	0.8	0.8	0.8	0.9	0.9	0.9	1.0	1.0
International Assistance Programs	13.6	13.0	13.2	13.5	13.8	14.1	14.4	14.7	15.0	15.4	15.7	16.1
National Aeronautics and Space Administration	13.6	14.3	14.6	15.0	15.3	15.7	16.1	16.5	16.9	17.3	17.7	18.2
National Science Foundation	3.9	4.4	4.5	4.6	4.7	4.8	4.9	5.0	5.1	5.2	5.4	5.5
Office of Personnel Management	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Small Business Administration	0.9	0.3	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.1	1.1	1.1
Social Security Administration	5.6	6.0	6.3	6.5	6.7	6.9	7.2	7.4	7.7	8.0	8.3	8.6
Other Independent Agencies	5.8	6.3	6.6	6.7	6.9	7.0	7.4	8.4	8.6	8.8	8.9	9.1
Allowances		-0.6										
Total	586.6	636.5	662.9	680.6	699.4	718.5	738.2	759.4	780.8	802.4	824.6	847.7

* \$50 million or less.

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