

DRAFT DEFICIT REDUCTION POLICY - 6/1/88

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DRAFT STATEMENT
The Federal Budget Deficit Crisis

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DRAFT STATEMENT

The Federal Budget Deficit Crisis

I. General Statement

In the face of a national debt which now totals more than two trillion dollars, the National Conference of State Legislatures remains very disturbed about the large and continuing federal budget deficit. Reducing and eventually eliminating it is our most serious national domestic policy challenge.

The deficit poses a threat to the nation's economy, and thereby to the fiscal health of state and local governments, which are much more vulnerable than the federal government to economic vicissitudes.

NCSL urges that all federal spending programs be scrutinized in order to resolve the deficit crisis. We would place only two restrictions on deficit reduction efforts: first, that they preserve present means-tested entitlements; second, that they protect the integrity of the intergovernmental fiscal system.

States are willing to share proportionately in necessary budget cuts. It should be noted, however, that states have borne a disproportionate share of the burden of deficit reduction in the past. The present intergovernmental system, though in need of careful examination, has taken many years to evolve and should not be significantly altered without consideration of the implications for state and local government.

Federal policy in the 80's has called upon states to assume a larger role in meeting domestic needs. Actions taken to reduce the federal deficit must not undermine the ability of state government to meet these needs.

II. Timetable for Deficit Reduction

As grave as the federal budget deficit crisis is, the budget cannot be balanced in one year. The magnitude of the reduction required is so great that it is neither politically feasible nor economically practical. A sudden reduction of \$150 billion to \$200 billion could precipitate a recession, and thereby exacerbate the problem. The deficit must be reduced on a gradual but certain schedule.

We recommend that the Congress and the Administration adopt policies that will comply with the goal set out in the Balanced Budget and Emergency Deficit Control Reaffirmation Act (Gramm-Rudman-Hollings II) to balance the federal budget by 1993. According to current estimates of the Congressional Budget Office, this will require a reduction of \$134 billion from the 1993 baseline.

III. Formula for Deficit Reduction - Rules for New Program Initiatives

To achieve a balanced federal budget by 1993 will require a reduction of \$134 billion from the baseline for that year. This will require combined spending cuts/revenue increases of about \$120 billion; the balance is accounted for by reduced debt service. We recommend the following approach:

1. Increase federal revenues by a net \$60 billion by FY 93.
2. Reduce federal expenditures by a net \$60 billion by FY 93, as follows:
 - a. reduce entitlement expenditures by \$20 billion.
 - b. reduce domestic discretionary spending by \$20 billion.
 - c. reduce defense spending by \$20 billion.
3. Require any new program initiative to be "deficit-neutral"; i.e., new spending proposals should specify a source of funding, either new taxes or spending reductions in existing programs, or a combination equal to the projected cost of the new programs.

IV. Deficit Reduction Measures

To achieve the deficit reduction called for in Section III, we recommend that Congress and the President consider revenue and spending options listed below. We have identified these options from among many possible alternatives as those least injurious to intergovernmental fiscal health. The estimated contribution to deficit reduction attached to each are those of the Congressional Budget Office. (See Reducing the Deficit: Spending and Revenue Options, March, 1988.)

A. Revenues

Significantly reducing the federal deficit will require additional revenue. We urge Congress and the President to reject revenue proposals that would undermine state revenue systems, such as a national value-added tax.

We recommend that the following measures be considered.

CODE	TITLE	FY 93 Revenue (in millions of dollars)
REV-04 (2)	<u>Reduce tax credits for rehabilitation of older buildings</u> <u>Repeal of credits</u>	400
REV-06 (1)	<u>Tax credit unions like other thrift institutions</u> <u>Tax all credit unions</u>	500
REV-07 (c)	<u>Bring Oil and Gas Losses Within the Passive</u> <u>Loss Limitation</u>	300
REV-08 (1)	<u>Eliminate private-purpose tax-exempt bonds</u> <u>Eliminate all</u>	1,400

REV-09	<u>Further restrict deductions for business meals and entertainment</u>	7,300
REV-13 (2)	<u>Phase out the child- and dependent-care credit</u> <u>Phaseout starting at \$50,000 AGI</u>	900
REV-14	<u>Limit mortgage interest deductions</u>	
(1)	<u>Limit deductions to \$12,000 per return single or \$20,000 joint</u>	3,100
(3)	<u>Phase out deductions for second homes</u>	600
REV-16	<u>Increase taxation of Social Security and Railroad Retirement benefits</u>	approx 11,000
REV-20	<u>Repeal the Medicare taxable maximum</u>	9000
REV-23 (2)	<u>Increase energy taxes</u> <u>Impose import oil fee (\$5 per barrel)</u>	8,200
REV-24	<u>Increase excise taxes</u>	
(1)	<u>Raise cigarette tax to 32 cents per pack</u>	3000
(2)	<u>Increase taxes on distilled spirits</u>	400
(3)	<u>Raise taxes on beer and wine to rate on distilled spirits</u>	4,400
Unnumbered	<u>Adjustments in the income tax system (either in the rates or in the base) which will be applied toward deficit reduction</u>	10,000
	TOTAL FOR REVENUES	60,500

B. Entitlements

Entitlements have become a substantial portion of government spending, a portion which has been relatively insulated from budget cuts. For reasons of both fairness and budgetary necessity, non-means-tested entitlements must contribute significantly to deficit reductions.

We recommend that the following measures be considered.

CODE	TITLE	FY 93 Savings
ENT-01 (4)	<u>Reduce subsidies for guaranteed student loans --</u> <u>Reduce default costs by eliminating borrowing for students at schools with high default rates</u>	560
ENT-02	<u>Eliminate federal matching payments for Medicaid recipients eligible only because they receive state SSI supplements</u>	180

ENT-05 (2)	<u>Reduce reimbursements for capital expenditures under Medicare -- Move immediately to a prospective reimbursement system and redefine capital expenses</u>	900
ENT-07 (3)	<u>Adopt a fee schedule for reimbursing physicians under Medicare -- Fee schedule with spending cap set by growth in GNP</u>	8,990
ENT-11 (1)	<u>Tax a portion of Medicare benefits -- With income threshold</u>	5,300
ENT-12	<u>Increase Medicare's deductible for physicians' services</u>	3,560
ENT-22 (4)	<u>Restrict COLA in non-means-tested benefit programs -- Pay full COLA on benefits below a certain level and 50 percent of COLA on benefits exceeding that level</u>	5,850
ENT-25	<u>End certain veterans' compensation payments for those with low-rated disabilities</u>	1,600
	TOTAL ENTITLEMENTS	26,940

C. Domestic Discretionary

Cuts in non-defense discretionary spending, especially state-local aid, have contributed substantially to deficit reduction measures in recent years. While further cuts will necessarily be painful, the magnitude of the deficit requires that they be made.

We recommend that the following measures be considered.

<u>CODE</u>	<u>TITLE</u>	<u>FY 93 Savings</u> (in millions)
NDD-01	<u>Reduce the Economic Support Fund</u>	120
NDD-03	<u>Eliminate "cargo preference" and related subsidies to U.S.-flag vessels</u>	410
NDD-06	<u>Cancel or defer the superconducting super collider</u>	30
NDD-07	<u>Reduce subsidies provided by the Rural Electrification Administration</u>	820
NDD-08	<u>Reform debt repayment policy for power marketing administrations</u>	250
NDD-09	<u>Change revenue-sharing formula from gross to net receipt basis for commercial activities on federal lands</u>	260

NDD-10	<u>Improve pricing for commercial uses of public lands</u>	
	<u>Hardrock Mining Claims</u>	75
	<u>Grazing Fees</u>	30
	<u>Below-Cost Timber Sales from National Forests</u>	60
	<u>Federal Water Sales</u>	20
NDD-11	<u>Increase and expand fees charged for recreational use of National Park Service and other public lands</u>	140
NDD-12	<u>Increase the harbor maintenance tax</u>	400
NDD-15	<u>Include foreign deposits of U.S. banks in the FDIC insurance base</u>	310
NDD-16	<u>Discontinue postal subsidies for not-for-profit organizations</u>	490
NDD-20	<u>Reduce federal mass transit aid</u>	670
NDD-22	<u>Eliminate federal general revenue supplement of the airport grants-in-aid program</u>	1,350
NDD-23	<u>Raise charges to cover transportation safety programs</u>	
	<u>Federal Safety Services</u>	700
	<u>Safety, Research, Regulation, and General Investigations</u>	180
NDD-24	<u>End funding of the Economic Development Administration and of Urban Development Action Grants</u>	
	<u>Terminate EDA</u>	240
	<u>Terminate UDAG</u>	240
NDD-25 (2)	<u>Restrict Eligibility and Reduce Funding for the Community Development Block Grant</u>	450
NDD-26	<u>Eliminate untargeted funding for elementary and secondary education, but retain targeted funding</u>	
	<u>Eliminate Chapter 2 Block Grant (untargeted)</u>	620
	<u>Eliminate Untargeted Portion of Vocational Education</u>	480
	<u>Eliminate Untargeted Mathematics and Science Education Program</u>	150
NDD-27	<u>Reduce federal funding for campus-based student aid</u>	280
NDD-29	<u>Reduce funding for arts and humanities</u>	200

NDD-32	<u>Shift housing assistance from new construction to vouchers</u>	178
NDD-33	<u>Stop or slow down the expansion of the pool of housing assistance commitments</u> <u>Slow down expansion</u>	610
NDD-35	<u>Close down inefficient or under-used units in Veterans Administration</u>	140
NDD-37	<u>Modify the Davis-Bacon Act by raising the contract threshold and allowing unrestricted use of helpers</u>	650
NDD-38	<u>Modify the Service Contract Act by eliminating the successorship provision</u>	150

SUBTOTAL, DOMESTIC DISCRETIONARY 10,703

Federal Work Force

FWF-03	Cap COLA for federal retirees under age 62	850
FWF-04	Eliminate indirect retirement subsidy to the U.S. Postal Service (offsetting receipts)	1,900
FWF-06	Trim the size of the civilian work force	990
FWF-08	Reduce federal travel expenses	330

SUBTOTAL, FEDERAL WORK FORCE 4,070

AGRICULTURE CUTS TO BE DETERMINED 5,227

TOTAL DOMESTIC DISCRETIONARY 20,000