

DEPARTMENT OF HEALTH AND HUMAN SERVICES

NATIONAL INSTITUTES OF HEALTH

National Institute of Mental Health

<u>FY 1998 Budget</u>	<u>Page</u>
Organization chart	2
Appropriation language	3
Amounts available for obligation	4
Justification	5
Budget mechanism table	25
Budget authority by activity	26
Summary of changes	27
Budget authority by object	29
Administrative costs	30
Significant items in House and Senate Appropriations Committee Reports	31
Authorizing legislation	41
Appropriation history	42
Detail of full-time equivalent employment (FTE)	43
Detail of positions	44

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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National Institute of Mental Health

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NIMH - 2

NATIONAL INSTITUTES OF HEALTH

National Institute of Mental Health

For carrying out section 301 and title IV of the Public Health Service Act with respect to mental health, [\$701,585,000] *\$629,739,000.*

(Department of Labor, Health and Human Services, Education and Related Agencies Appropriations Act, 1997, P.L. 104-208)

NATIONAL INSTITUTES OF HEALTH

National Institute of Mental Health

Amounts Available for Obligation 1/

	1996 Actual	1997 Estimate	1998 Estimate
Appropriation	\$661,328,000	\$701,585,000	\$629,739,000
Rescission in accordance with P.L. 104-134	(779,000)	---	---
Reduction in accordance with P.L. 104-208	---	(478,000)	---
Subtotal, Adjusted Appropriation	660,549,000	701,107,000	629,739,000
Real transfer to: Other NIH Institutes through the NIH Director's one percent transfer authority	(533,000)	0	0
Comparative transfer to: Office of AIDS Research, NIH for HIV activities	(93,483,000)	(96,906,000)	0
National Institute of General Medical Sciences for Administration of Research Training Payback requirements	(57,000)	(57,000)	
Subtotal, adjusted budget authority	566,476,000	604,144,000	629,739,000
Unobligated balance, lapsing	(61,000)	0	0
Total obligations	566,415,000	604,144,000	629,739,000

1/ Excludes the following amounts for reimbursable activities carried out by this account:

FY 1996 - \$5,046,000; FY 1997 - \$5,262,000; FY 1998 - \$5,473,000

Also excludes funding for HIV activities included in the office of AIDS Research:

FY 1998 - \$98,510,000

Note: Excludes \$195,708 in FY 1996 and \$294,134 in FY 1997 for royalties.

Justification

National Institute of Mental Health

Authorizing Legislation: Section 301, 487, and Title IV, Part C of the Public Health Service Act, as amended. Reauthorizing legislation will be proposed.

Budget Authority:

	FY 1996 Actual		FY 1997 Estimate		FY 1998 Estimate		Increase or Decrease	
FTE	BA	FTE	BA	FTE	BA	FTE	BA	
828	\$566,476,000	828	\$604,144,000	828	629,739,000	0	+\$25,595,000	

This document provides justification for the FY 1998 Non-AIDS activities of the National Institute of Mental Health. Justification of the NIH-wide FY 1998 AIDS activities can be found in the NIH section entitled "Office of AIDS Research (OAR)."

INTRODUCTION

In the 1990s, the sophisticated tools and methods of modern medical science are being applied with remarkable effect to research on mental illness. The National Institute of Mental Health (NIMH) is responsible for leadership of the Nation's mental health research program. The NIMH manages an extensive program of extramural research and research training. The Institute's Intramural Research Program (IRP) focuses on long-term, high risk research and, because of its critical mass, is becoming a leading site for research that translates basic neuroscience into clinical research. This document highlights NIMH's scientific strategy and recent progress in pursuit of its mission: To support and conduct research on the causes, treatment, and prevention of mental illnesses that account each year for approximately \$148 billion in direct and indirect costs and cause untold human suffering.¹

¹ "Disease-specific Estimates of Direct and Indirect Costs of Illness and NIH Support," Report to Congress. Appendix: "Mental Disorders." (Department of Health and Human Services, National Institutes of Health. November, 1995.)

When NIMH was established some 50 years ago—and for years thereafter—mental illness remained largely inaccessible to direct scientific study; the biologically “privileged” status of the human brain, its workings hidden within the impenetrable shielding of the skull, defied observation. Schizophrenia, depression and manic depressive illness, anxiety disorders, panic disorder, and obsessive-compulsive disorder, as well as eating disorders, Alzheimer’s disease, childhood mental illnesses such as autism, and other personality and developmental disorders could be studied only indirectly; explanations for the origins of illness often were based on symptoms, and clues to the nature of illness were sought in substances such as cerebrospinal fluid.

Today, we know that mental illnesses are neurobiologically-based brain disorders that in the future will be understandable in terms of molecular and cellular processes in the brain and the brain’s interaction with the environment. Although much remains to be learned, research now has opened a window that permits us to view the structure and function of the living, thinking brain. New scientific tools such as molecular genetics, molecular biology, and refined brain imaging capabilities are accelerating the pace of progress in established fields such as neuroscience and behavioral science, which have been nurtured by NIMH over the course of many decades. Basic and clinical scientists can examine, with increasing precision, the manner in which genes and the myriad influences of an individual’s environment interact to play out the drama of thought, emotion, and behavior in health and in mental illness.

Understanding how things go wrong in the brain to produce mental illness requires research that extends from the cell to society. Thus the NIMH research portfolio encompasses genetics, molecular biology, neuroscience, basic behavioral science, clinical research, epidemiology, prevention research, and mental health services research. An important current goal for NIMH is to facilitate the maturation of translational research that will build conceptual and methodological bridges capable of linking the perspectives and findings of scientists working in basic research to the needs of clinical investigators who seek to apply new knowledge in ways that will benefit patients.

This document highlights scientific advances that provide a glimpse of progress being made across the breadth of NIMH’s research portfolio. Before these selected accomplishments are presented, however, three vignettes illustrate how public health need and a long history of scientific achievement have converged in recent years to position NIMH today to play a central role in pursuit of NIH-wide Areas of Research Emphasis. Initiatives to be undertaken by NIMH include studies of the origins of severe mental disorders and fundamental neurobiological research that offers tantalizing insights into the manner in which the physical matter of the brain acts as the transducer of emotion; both of these will serve to enrich the NIH’s concerted focus on the Biology of Brain Disorders, one important Area of Emphasis. A third account is of research that is refining the diagnosis and treatment of childhood mental disorders, and thus is central to another NIH Area of Emphasis that targets New Avenues for the Development of Therapeutics. Each of these brief narratives illustrates the painstaking and exciting exploration of paths to discovery to which NIMH is dedicated.

RECENT DISCOVERIES AND FUTURE DIRECTIONS IN MENTAL ILLNESS RESEARCH

Origins of Mental Disorders

The advent of molecular genetics research in the study of mental illness signals a new era in a distinguished history of scientific efforts to clarify the role of genes and the environment in the origins of mental disorder. Beginning in the 1960s, NIMH pioneered twin and adoption research designs that constituted the first sophisticated attempt to sift out the variable contributions of genetic inheritance and non-genetic family influence on the development of mental illnesses such as schizophrenia. By studying identical (monozygotic) twins who share identical genomes, researchers demonstrated that if one twin has schizophrenia, the co-twin has a 30-50 percent risk of having the disease (or 30-50 percent concordance rate, meaning a tendency to share the illness). This co-twin's risk greatly exceeds the 1 percent risk for the illness found in the general population and is two to four times greater than the 15 percent risk that a fraternal, or dizygotic, twin has when his co-twin has schizophrenia. If this disorder were purely genetically based, the concordance rate would be nearly 100 percent in monozygotic twins. Thus, the early research showed that the genetics of mental disorders reflect *incomplete penetrance*, meaning that genetic factors are critical, but are not a sole and sufficient cause of illness, as in illnesses such as Huntington's disease or cystic fibrosis. Additional developmental or environmental factors interact with genes to produce the diseases. Subsequent research on gene-environment interactions further demonstrated that mental disorders exhibit *variable expressivity*, meaning that even if both members of an identical twin pair develop a mental disorder, the pattern of disease may differ substantially.

Modern molecular genetic techniques are demonstrating that the genetics of mental disorders are even more complex than the early studies showed. In addition to incomplete penetrance and variable expressivity, individual vulnerability to mental disorders likely is due to the interaction of multiple genes rather than to a flaw, or mutation, in a single gene. Moreover, it appears that no single genetic mutation is necessarily shared by all individuals with a given disorder--there are likely multiple genetic pathways to vulnerability. Several recent studies involving different groups have linked bipolar disorder to chromosomes 6, 13, 15, and 18. Some of these studies also indicate that a parent-of-origin effect may contribute to the complex inheritance pattern seen in bipolar disorder. For example, a genetic trait may be transmitted by mitochondrial DNA, which is contributed exclusively by mothers (termed *mitochondrial inheritance*), or a disease allele, or mutated gene, may be expressed differently, depending on which parent contributed it (an effect called *genomic imprinting*). For schizophrenia, recent investigations have provided evidence for linkage of a susceptibility gene to a region on the short arm of chromosome 6 (6p) as well as on chromosomes 8, 9, 20, and 22.

What might be the outcome of this genetic background? At present, it appears that certain genetic patterns lay a foundation for an increased *vulnerability* to illness, rather than directly causing the illness. Environmental factors then may interact with the genetic vulnerability to cause the onset of illness. In the case of schizophrenia, accumulating findings suggest that gene-

environmental interactions may result in disturbances in neurodevelopment. This means that normal maturational changes in the brain during adolescence and early adulthood may trigger a latent defect present from birth, resulting in the onset of illness. The stage may be set for schizophrenia when faulty migration of nerve cells occurs during early brain development. As the brain further matures during late adolescence and early adulthood, misconnections related to the early developmental defect lead to the onset of the illness. Neurodevelopmental disturbances could exert an effect on cellular function in the central nervous system in schizophrenia in several ways: through abnormal neuronal migration or proliferation; through abnormal neuronal cell death, or elimination; or through incorrect formation of neural connections. Additionally, an abnormality in the development of the central nervous system in schizophrenia could reflect abnormalities at the molecular level, particularly in the molecules that control central nervous system formation and development.

Now that scientists appreciate the complexity of mental illness genetics, they are better able to use specific research techniques to zero in on unanswered questions. Animal models exist, for example, that enable scientists to manipulate the genome by adding or deleting single genes or, in the near future, by "rigging" a gene to deactivate at a predetermined time in the animal's development. Such genetic "knock-in" and "knock-out" technologies afford unprecedented opportunities to study mechanisms underlying gene-environment interactions that contribute to behavior. Molecular genetics techniques also are speeding the identification of disease vulnerability genes and making it possible to study their function from molecular biological and environmental perspectives. Research will examine how environmental factors affect the differential expression (and the rate of that expression) of genes in specific cell types, how environmental inputs may alter the manner in which the brain develops over time, and how environmental factors experienced later in life can produce disease. Findings from these investigations will be used to elucidate how medications affect gene expression, to understand how gene regulation contributes to the mechanisms of action of psychotropic drugs, and to understand the association of gene regulation with other long-term changes in the nervous system.

Mental Illnesses in Children

Only in recent decades has much of the public become aware of the existence and, in turn, the tragic and often long-lasting impact, of mental disorders in childhood. This recognition was primed by early NIMH studies that first documented the existence of various illnesses and then began to differentiate the treatment needs of children and adolescents from the needs of adults. Even today, however, child and adolescent mental disorders have received less research attention than adult mental disorders, in part because detecting and diagnosing clinical problems is especially difficult during the flux and frequent turmoil of childhood and adolescence. But a solid scientific foundation laid in the last few years has begun to clarify the antecedents, course, and outcome of mental disorders in children and adolescents. New approaches to diagnosis, treatment, and prevention are now being developed.

An expansion, now underway, of the current research effort is imperative. As many as 20 percent of young Americans between the ages of 7 and 14—approximately 10 million children—suffer from mental health problems severe enough to compromise their ability to function to some degree. For a child, any degree of limitation that affects schooling and maturation is disastrous. Mental disorders in children under age 15 cost the Nation \$1.5 billion in direct treatment expenses in 1985, the most recent year for which fairly reliable cost data are available. The NIMH is developing a multi-site study of mental health services that will provide, for the first time, contemporary, accurate estimates of the prevalence of developmental, mental, and emotional disorders in children, ages 4-17, as well as vital information on the use, costs, and outcomes of mental health services. These data will be invaluable to researchers and policy makers alike in identifying research needs and opportunities and understanding the changing health care environment. This study is currently undergoing a review to ensure that the results will provide the best possible estimates at the lowest possible cost.

Mental and behavioral problems that first appear during childhood or adolescence can have life-long consequences. The onset of anxiety disorders in children doubles the risk of later substance abuse, and several major adult mental illnesses, such as schizophrenia and affective illnesses, typically begin in adolescence. While schizophrenia is 50 times less likely to begin before age 12 than after that age, the rare cases of childhood onset may provide special clues to how the disorder develops. Cases that begin very early in life may be more homogenous or more severe than later-onset schizophrenia; research is attempting to ascertain whether true childhood-onset patients may have received more of certain causative factors early in brain development. Even if a disorder does not persist into adulthood, it can profoundly distort a child's psychological and social development. Conversely, traumatic experiences that are not in and of themselves mental disorders can have life-long mental health repercussions: for example, childhood sexual abuse—more than 2.3 million cases were reported in 1993—is strongly associated with later mental disorders. Keenly aware of the acute and long-term effects of childhood mental illness, clinical investigators are giving renewed attention to the first onset of illness as an opportunity to prevent the progression of mental disorders.

Autism, a severe disorder of communication and behavior, is a high priority research focus for NIMH and, indeed, several noteworthy successes have been achieved in recent research on autism. Family and twin studies suggest a genetic etiology, particularly strong in families in which multiple cases occur. Given that the prevalence rate is approximately 100 times higher in these families than in the general population, odds are high that researchers will identify specific genetic factors in the etiology of autism within the next several years. Such genes will serve as diagnostic markers and will shed light on disturbances in the regulation of brain development that occur in the disorder. In addition, NIMH neuroimaging studies have provided clear evidence of functional and structural abnormalities in several brain regions in persons with autism, buttressing hypotheses that a genetically-triggered disturbance in brain development early in fetal life causes autism.

Given the comparatively recent origins of productive basic and pre-clinical research on child and adolescent mental disorders, clinical trials of treatments designed specifically for child disorders

have been sparse to date and little research-based evidence exists to guide clinical decision-making. Fewer than one in five medications currently on the market for the treatment of mental illnesses have been tested for safety and efficacy in children. As a consequence, physicians must extrapolate from data on adults as to the appropriateness of medications for children. While there are substantial challenges involved in assessing psychoactive medications in children, including ethical issues, the small numbers of investigators in the field, and difficulties enrolling children and families in clinical trials, the need for safety and efficacy information is critical. NIMH is working to resolve obstacles to research that will yield desperately needed knowledge in this area.

It is also important, particularly for treating children with mental disorders, to discover non-pharmaceutical treatments—psychotherapies—and to identify those patients that can be helped by such treatments. Psychotherapy methods tailored to children promise to be quite useful in preventing the later development of certain mental illnesses in adulthood.

NIMH is particularly receptive to novel research approaches and lines of inquiry about childhood mental disorders. Investigators with the intramural research program recently found that the development of certain episodic neuropsychiatric disorders (obsessive-compulsive disorder and Tourette's disorder) in some children may involve antineuronal antibodies resulting from streptococcus infections, such as "strep throat." The research suggests that, in some cases, therapies aimed at modifying the immune response or combating the infection directly may alleviate some behavioral symptoms in children with these disorders. These findings have opened completely new treatment possibilities for children that NIMH researchers are now exploring.

Neurobiology of Emotion

Recent efforts to delineate the neural circuits with which the brain forms memories about the emotional significance of life experiences represent an exciting new direction in neuroscience research. Valuable in its own right for elucidating basic mechanisms of brain function, the research has critical implications for understanding the neural substrates of anxiety, affective disorders, posttraumatic stress disorder and the effects of child abuse.

Historically, a stumbling block in this arena has been that people thought of emotion as part of the domain of mind and consciousness, and thus not accessible to neurobiological research. But recently, several NIMH grantees have designed research models that permit emotion to be subject to rigorous scientific study. One project that vividly illustrates the recent progress involves the study of fear. In humans, behavioral responses that are labeled "fear" reflect the operation of brain mechanisms that have been preserved throughout evolution to ensure animals' survival in the face of threat; activation of these brain mechanisms can lead to the emotional response that we term "fear."

A large body of research has examined how lesioning, or altering, various brain regions affects classical fear conditioning. Those studies demonstrated that cortical brain regions--that is, those involved in complex behaviors--were not necessary for a fear response. Ruling out such "higher order" brain regions led a team of NIMH researchers to focus on the amygdala; the amygdala is a core part of the limbic system, a region of the brain that emerged early in evolution to coordinate processes important to survival. The investigators now have described, in some detail, the neural circuitry in which sensory input signifying "danger" is sent directly to the amygdala; from this hub, messages are sent to numerous brain areas that control the array of responses involved in the "fight or flight" reaction (e.g., freezing behavior, increases in blood pressure and heart rate, secretion of stress hormones, pain suppression, and other preparations for immediate protective action). In addition, the amygdala forwards the information signifying danger to higher cortical regions that are responsible for "understanding" the threat.

The research described above is complemented by work corroborating the conclusion that while the cortex is not needed to establish simple fear conditioning, it does interpret more complex information about the nature of a threat and the context in which a threat was first encountered. By lesioning a specific brain region after an animal has been trained, or conditioned, to fear a certain stimulus, investigators are able to determine what role different areas of the brain -- and, even more precisely, specific "circuits" that make up the brain's wiring -- play in a fear response.

Another approach to localizing a particular emotional state to discrete brain regions and circuits is seen in NIMH-funded research that employs neuroimaging techniques -- scalp EEGs (electroencephalograms), combined with PET (positron emission tomography) and fMRI (functional magnetic resonance imaging) -- to examine the neural mechanisms that underlie individual differences in registering, or processing, positive and negative emotions. Findings support the differential roles of the two brain hemispheres in these different emotional states, but point again to the central role of the amygdala. Imaging studies have permitted investigators to study how environmental factors can lead to enduring changes in brain structure and function. Findings from these studies have intriguing implications for understanding the origins of mental disorders such as depression and anxiety.

NIMH-funded investigators also use neuroimaging technologies in research that aims to identify brain mechanisms that underlie explicit (conscious) and implicit (nonconscious) memory and to identify patterns of neural activity that may be correlated with distortion of memory. In shedding light on the effects of emotion on memory storage and retrieval, such studies provide insights into conditions such as posttraumatic stress disorder, brain injury, and Alzheimer's disease.

The picture that is emerging from these studies fits with what is known about the significance of plasticity, or experience-driven changeability, at the molecular level in the brain. Further research will yield an increasingly complete picture of the circuitry that underlies fear, emotion, memory, and control of moods. Knowledge gained will be further advanced through the capability, now afforded by genetic engineering technologies in mice and other animals, to dissect the mechanisms underlying several forms of learning and memory.

SCIENCE ACCOMPLISHMENTS

Understanding Schizophrenia - Evidence continues to amass that schizophrenia is, at least in part, a disorder of neuronal development. In postmortem examination of brains of patients with schizophrenia, NIMH-supported researchers recently found significant changes in the distribution of interstitial neurons (adult remnants of the cortical subplate from which cortical neurons arise and differentiate in utero) in the frontal cortex area. The changes are consistent with disturbances during brain development that result in defective cortical circuitry. To test this neurodevelopmental hypothesis of schizophrenia, it is important to take advantage of broader opportunities that exist to understand fundamental developmental neurobiology. NIMH proposes to stimulate research in this area.

Depression, Mood Disorders, and Anxiety - Manic-depressive illness (MDI), or bipolar affective disorder, a severe mental disorder in which episodes of mania are interspersed with periods of depression, affects about 1 percent of adults in the U.S. and, untreated, carries a 20 percent risk of suicide. Twin, family, and adoption studies have shown that a susceptibility to MDI is inherited, but the mode of inheritance has been difficult to ascertain because there appear to be multiple genes involved. NIMH intramural researchers, studying families with the illness among the Old Order Amish, have located specific regions on chromosomes 6, 13, and 15 that may contain genes involved in MDI. In addition, NIMH-supported extramural researchers, who are studying two large Costa Rican families, found evidence that MDI is linked to genes on a specific region of chromosome 18 (18q23) and that there is a parent-of-origin effect.

Understanding Learning and Memory - Using state-of-the-art genetic engineering and cell recording techniques, NIMH-supported researchers have begun to describe the underlying biology that enables brain cells in mice to form mental maps as they explore new places. Recordings were made from place cells (different place cells are active as an animal moves around, thus creating place fields in the brain that correspond to the animal's position and movement in its physical environment) in the hippocampus (a seahorse shaped region deep in the brain that plays a role in memory) of freely moving mice placed in an experimental chamber. The mice were genetically engineered to change a single gene that is important in long-term potentiation, a process important in memory formation wherein neurons create strong, long-lasting connections. The researchers discovered that the memory-forming place cells in the genetically altered mice failed to form patterns that corresponded closely to the experimental container. Place cells in the experimental mice were less abundant, less precise, and less stable over time. The findings demonstrate that long-term potentiation of place cells in the hippocampus is important in the creation of spatial maps. This knowledge brings us closer to an understanding of the molecular basis of memory formation in the brain.

Chronobiology - Seasonal changes in behavior and physiology, such as those involved in breeding, migration, and hibernation, are ubiquitous among animals and generally are triggered environmentally by changes in the length of the night. Melatonin, a hormone released at night from the pineal gland in the brain, plays a key role as a chemical transducer of the effects of

seasonal change in night-length on behavior. Nerve cells in the brain that regulate breeding and other functions that vary on a seasonal basis possess the ability to monitor melatonin release and its duration. Thus, when the duration of nocturnal melatonin release lengthens, the cells trigger winter-type behaviors. NIMH-intramural researchers have demonstrated that humans have retained similar mechanisms in their brains. Individuals were exposed to light under carefully controlled conditions and their blood hormone levels, sleep, and body temperatures were recorded around the clock. When the experimental "nights" were lengthened, the duration of melatonin secretion also lengthened, showing that the human brain can detect changes in night length and transduce this signal into changes in the duration of melatonin secretion. These results provide insight into the effect of modern lighting on natural patterns of human sleep, and also are relevant to understanding the biological basis of seasonal changes in humans including changes in mood associated with seasonal affective disorder and with reproductive function.

Treatment for Depressed Children - Although increasing numbers of children and adolescents have clinical depression, relatively little is known about the specific treatment needs of these age groups. An NIMH-supported double-blind, randomized placebo-controlled clinical trial of the antidepressant, fluoxetine (Prozac), was conducted in children and adolescents suffering from major depression. The majority of patients (56 percent) who received this antidepressant were much improved or very much improved after 8 weeks, compared to only 33 percent of patients receiving placebo. This study is the first to show positive effects of an antidepressant in children and adolescents with major depression.

Antineuronal Antibodies and Childhood Mental Disorders - NIMH intramural researchers have identified a subset of childhood-onset obsessive-compulsive disorder (OCD) and Tourette's disorder patients whose symptoms appear to be mediated through antineuronal antibodies that arise in response to strep throat (Group A beta-hemolytic streptococcus (GABHS)) infections. This unique subgroup of children is distinguishable from patients with other forms of OCD and movement disorders, and this syndrome is now identified by the acronym PANDAS (Pediatric Autoimmune Neuropsychiatric Disorders Associated with Streptococcal infections). Children with acute exacerbations of PANDAS are being enrolled in a trial of immunomodulatory treatments. A placebo-controlled trial of penicillin prophylaxis is underway to determine if prevention of GABHS infections will decrease OCD and Tourette's symptom exacerbation for patients with PANDAS. The antineuronal antibody hypothesis for neuropsychiatric disorders constitutes a major shift in understanding episodic childhood disorders.

Cognitive-Behavioral Therapies for Children - For children with mental disorders, it is especially important to develop treatments based on psychotherapies, rather than having to rely entirely on medications. NIMH places a high priority on such research. A recent study focused on school-age children with anxiety disorders, which tend to persist throughout childhood and adolescence and continue in adulthood unless treated; these disorders are associated with a range of psychological and social impairments. The researchers developed a 16-week cognitive-behavioral intervention specific to the needs of children with anxiety and found that this otherwise persistent emotional problem could be effectively reduced and that treatment effects

were maintained for more than three years after the treatment. Other NIMH-supported clinical research is addressing the question of which treatments—psychosocial treatment, medication, or both—are most effective for which children with attention-deficit/hyperactivity disorder.

Anorexia Nervosa: Epidemiology - Anorexia nervosa, a syndrome of extreme, often life-threatening weight loss associated with a distorted body image and a pathological fear of gaining weight occurs predominantly in young women and causes death in 10 percent of patients. NIMH-supported researchers have studied the occurrence and risk factors for this disorder in a population-based sample of female twins. The lifetime prevalence of anorexia was found to range from 0.51 to 3.70 percent and the mean age of onset was 18-20 years. If one twin suffered from anorexia nervosa, the co-twin was found to be at a significantly higher risk for anorexia nervosa, bulimia nervosa (another serious eating disorder), major depression, and current low weight during her lifetime. These results indicate that anorexia nervosa occurs with a range of symptom severity, that it is familial in nature, and that it shares familial roots with major depression and bulimia nervosa.

Anorexia Nervosa: Treatment - A variety of treatment approaches are effective in the acute phase of weight restoration for anorexia nervosa; however, follow-up studies indicate that, for many patients, these interventions are insufficient. In spite of initial progress during the acute weight-gain phase of inpatient care, approximately 30-50 percent of individuals relapse to the extent that they require repeated hospitalizations. Both pharmacological and psychological approaches to relapse prevention in weight-restored patients with anorexia nervosa are being evaluated in clinical trials supported by NIMH. One trial is evaluating post-hospitalization treatment with the antidepressant, fluoxetine (Prozac), and preliminary data analysis indicates that most patients on active drug respond, whereas the majority of placebo-treated subjects do not respond. Other NIMH research is evaluating the efficacy of nonpharmacological relapse-prevention strategies for anorexia nervosa patients and preliminary indications are that cognitive-behavioral therapy (CBT) can also maintain improvement in patients after successful hospitalization for weight restoration.

Diagnosing Alzheimer's Disease - NIMH- and NIA-supported collaborating researchers have found that people who inherit a gene known as apolipoprotein-E4 (APO-E4), that is associated with Alzheimer's disease (AD), also have reduced brain function before experiencing clinical symptoms of the disease. The researchers identified subjects in their 50s or older, who had mild memory complaints, and had several relatives suffering from AD. Family members who already had AD were also examined. All subjects received positron emission tomography (PET) brain scans and a genetic assessment for APO-E4. The relatives who did not have dementia, but who inherited APO-E4, had lower brain function and greater right-left brain asymmetry in the parietal region of the brain than those without APO-E4. The demented patients showed the greatest reductions in brain function. Thus, the combination of genetic assessment and PET scanning may allow the identification of patients in the early stages of AD, and intervention before permanent brain damage becomes extensive.

Suicide in the Elderly - Older Americans are disproportionately likely to kill themselves; comprising only 13 percent of the population, they account for 20 percent of all suicides. To determine what factors contribute to suicide risk, NIMH-supported researchers developed a psychological autopsy method that entails interviews with families and associates to determine the person's state of mind just prior to the suicide. When this psychological autopsy was conducted in reference to 141 suicide victims (ages 21 to 92 years), investigators found that over 90 percent of victims had at least one diagnosable mental illness, with the type of illness varying across the life course. Comorbid substance use and mood disorders or psychotic illness were more common among younger suicides, while major depression alone predicted older suicides. Importantly, many late-life depressions are highly amenable to treatment and at least 70 percent of these victims had visited primary care providers within a month of the suicide. The findings point to the urgency of enhancing both the detection and adequate treatment of depression in primary care offices as a means of reducing the risk of suicide among the elderly.

Treatment of Bipolar Disorder in African Americans - An NIMH-supported study compared the lithium red blood cell/plasma ratio (LR) in Caucasians with bipolar disorder to that in African Americans suffering from the disorder. The study participants received the same therapeutic dosage of lithium. Results indicate that the LR was higher in the African Americans and that these individuals also had increased side effects from the medication. These findings suggest that African Americans may be more susceptible to side effects from lithium treatment and that lower dosages are necessary.

Mental Stress and Heart Disease - Psychological stress has long been implicated as an etiological factor in numerous physical ailments including heart disease. Recently, NIMH-funded scientists subjected patients with coronary artery disease to both physically- and mentally-induced stress tests sufficient to produce myocardial ischemia in 2/3 of the patients, and determined the relationship to subsequent cardiac events over a 2-year period. Those patients who demonstrated myocardial ischemia subsequent to mental stress were nearly three times as likely to suffer an adverse cardiac event (infarct, bypass surgery, angioplasty) than those who did not. Patients with exercise-induced ischemic reactions were not more likely to exhibit a cardiac event than those who did not have reactions.

The Impact of Clinical Depression on General Health - Major depression is the most common clinical problem that primary care physicians are called upon to diagnose and treat in adult patients; greater awareness of depression has been paralleled by research documenting the often compounding effects that a clinical depression can have on a person's general health. One recent study funded by NIMH prospectively examined whether a major depressive episode increases the risk of myocardial infarction. The research involved 1,551 people who had taken part in a study in the early 1980's documenting depression in the general population. Those who had been diagnosed with a major depressive episode at that time were found to have had a fourfold increased chance of having a heart attack in the intervening years. The data were statistically adjusted to account for factors such as age, sex, smoking, marital status, and history of high blood pressure, all of which can affect heart attack risk. This study is unique because rather than

examining depression in people who already suffered a heart attack, the researchers assessed depression years before heart attacks occurred. In a second study, NIMH investigators found that women who have had bouts of severe depression tend to have thinner, weaker bones that are prone to fracture. The research revealed bone mineral density in the spine and hips to be significantly lower in women with a history of depression than in a non-depressed control group. The findings give particular cause for concern given that the women's average age was 41; despite their relative youth, about a third of the depressed subjects had a level of bone loss usually seen only after menopause, when bone-thinning changes associated with osteoporosis become a major health problem. The investigators now are seeking causes; likely explanations include poor nutritional habits among depressed patients, or hormonal problems associated with depression.

Mental Health Services Research - Although the number of elderly patients with schizophrenia is increasing significantly, little is known about their use of community mental health services. Studies of community mental health service use and costs as a function of patient demographic characteristics, diagnosis, and age were conducted with NIMH funding, using data from the San Diego county mental health system in fiscal years 1986 and 1990. In both years, total costs for schizophrenia were higher than for other psychiatric disorders and were age-dependent. Costs were highest for the youngest (18-29 years) and oldest patients (65+ years), and the average annual cost for elderly persons was comparable to that for the youngest age cohort. People diagnosed with schizophrenia age 75 and older show the sharpest rates of increase in mean cost of services. As this age group is the most rapidly growing segment of the population, this cost increase becomes particularly significant.

Mental Disorders and Disability - As general medical providers assume an increasingly critical role in the delivery of mental health services, questions about the costs and cost-effectiveness of mental health treatments provided in general medical settings have become an urgent research topic. In one study of primary care patients in a large health maintenance organization, NIMH-supported investigators found that anxiety and depressive disorders were associated with markedly higher health care costs. The increase was due to high use of general medical services by patients with these disorders, and not to higher mental health treatment costs. Optimal mental health treatment could lead to reductions in patients' demand for general medical services, thereby producing substantial cost savings.

Cost-effectiveness of Mental Health Care - A focus on cost containment in the health care system frequently subverts clinicians' interest in adhering to clinical practice guidelines because clinicians perceive "practice by the book" as more expensive. Yet research supported by NIMH has shown that while providing mental health care that adheres to practice guidelines would result in a 20-30 percent increase in immediate treatment outlays, such care also would quadruple the return on each dollar spent on treatment. This dividend, which was calculated by applying a sophisticated economic model to data on the clinical treatment of depression in three major U.S. cities (Boston, Chicago, Los Angeles), reflects the *cost-effectiveness* of treatment, a measure that takes into account such gains as restoring a patient's ability to work at a paying job. These

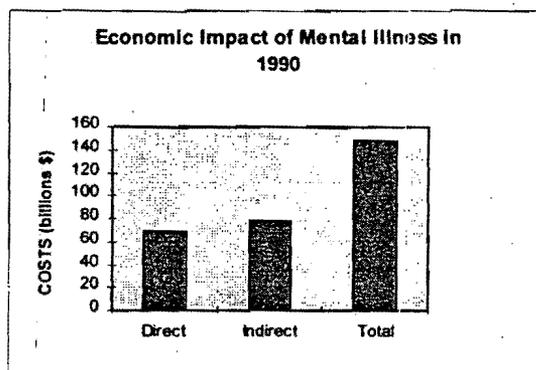
findings illustrate a dilemma: That is, long-term and overall "value-of-care" is purchased at a cost of increased short-term outlays for treatment. The benefits to patients (in terms of regained functional abilities and quality of life) and to an employer and society (in terms of increased productivity) do not immediately or directly offset the costs of treatment. The research suggests a need to devise incentives for high quality care—ideally, reimbursement that permits health care plans to recapture their social contribution.

Gaucher's Disease - Gaucher's Disease results from an inherited deficiency of the enzyme beta-glucocerebrosidase, which leads to severe anemia, enlargement of the liver and spleen, bone disease, and in some instances, neurologic consequences and early death. This inherited metabolic disease affects approximately 10-20,000 Americans of primarily Eastern European ancestry. The research of NIMH scientists, who recently developed a transgenic mouse model of Gaucher's disease, has led to a much clearer understanding of the pathophysiology, or mechanisms, of the disease, as well as immediate treatment benefits for patients. Present treatment of this disease requires expensive enzyme infusions, costing \$100,000 to \$300,000 per patient annually. Using gene manipulation techniques, these investigators have produced the missing enzyme and chemically modified it to increase its plasma survival time. The innovation will permit a drastic decrease in dosage requirements and is also expected to decrease treatment costs and antigenicity.

COSTS OF MENTAL ILLNESSES AND COST-SAVINGS RESEARCH

The most severe and disabling forms of mental illnesses—such as schizophrenia, manic-depressive illness, major depression, panic disorder, and obsessive-compulsive disorder—affect more than 5 million adults in the U.S. However, these severely ill patients represent only a part of a broader problem from which few families are immune, for mental disorders can and do occur from childhood to old age, irrespective of gender or race. Overall, one in 10 Americans experience some disability from a diagnosable mental illness in the course of any given year.

The annual costs of mental illnesses were estimated for NIMH by leading economic researchers, based on actual health economic data for 1985 and updated in 1990. The annual costs to the nation of *all mental disorders* (severe and less severe) were more than \$147.8 billion in 1990. As depicted in the chart, \$69.3 billion were in direct costs of treatment, while lost productivity of patients and other indirect costs totaled \$78.5 billion. Direct treatment costs for all mental disorders (\$69 billion) were



approximately 10.4 percent of the total \$666 billion in U.S. health care expenditures in 1990. In the same year, total costs associated with *severe* mental illnesses exceeded \$73.5 billion; this sum included more than \$27.6 billion in direct costs and \$45.9 billion in indirect costs.²

The distress that accompanies mental illness is exacerbated by an increased financial burden to patients and their families because people with mental illness do not receive insurance coverage commensurate with that available to people with other illnesses. This inequity is currently under study by Congress, NIMH, and other concerned Federal agencies. In early 1997, indications are that efforts to improve insurance coverage for mental health care will be linked to management of mental health care.

Managed care systems potentially offer a way to control the direct costs of mental health care; however, the perceived overriding commitment of managed care systems to reducing the costs of treatment has raised some concern about the impact on quality of care and possible undertreatment. It is nonetheless possible that, for both acute and chronic severe mental illness, long-term costs could be minimized by tailoring the treatment to the individual and by consistent, careful management of illness episodes and crises. Managed care for mental illness also offers the possibility that, through collaboration with researchers, managed care programs may have the incentive to develop more effective prevention and treatment modalities for child and adolescent care. The NIMH has developed an active portfolio of health services research that studies the impact of multiple forms of managed care upon both patient outcomes and treatment costs. Highlights of recent findings include:

- NIMH-supported researchers have studied the experience of Massachusetts, the first state to shift the administration of Medicaid mental health benefits for all beneficiaries to a behavioral managed care company. After managed care was introduced, the number of beneficiaries treated increased, inpatient admissions and length of stay decreased, and overall expenditures dropped. No cost shifting to the Department of Mental Health was found. Follow-up studies of the trade-offs between quality of care and costs are now needed.
- Major depression is experienced by 6 to 8 percent of primary care patients. Ambulatory medical patients who were experiencing major depression were randomized to either standardized mental health care treatments (psychotherapy or antidepressant medications) or the usual care provided by primary care physicians. Both standardized treatments produced markedly higher 8-month recovery rates than a physician's usual care, demonstrating the value of adhering to the practice guidelines recommended by the Depression Guideline Panel of the Agency for Health Care Policy and Research.

² "Disease-specific Estimates of Direct and Indirect Costs of Illness and NIH Support," Report to Congress. Appendix: "Mental Disorders;" "Mental Disorders - Severe Disorders." (Department of Health and Human Services, National Institutes of Health. November, 1995.)

- In recognition that few patients with major depression who are evaluated in a primary care setting receive guideline levels of antidepressant medication or psychotherapy, NIMH-supported researchers developed a collaborative model of care that increased education about depression and also integrated mental health professionals into the primary care treatment of depression. This innovative collaboration increased patient adherence to antidepressant medication, improved patient satisfaction with care of depression, and resulted in more favorable outcomes than typically achieved by primary care physicians.
- In a research project responsive to concerns that enrollments of HMO members with mental illnesses may be prematurely terminated, NIMH-supported investigators found that people with diagnoses of schizophrenia or bipolar disorder who were members of a large HMO remained enrolled longer than members who did not have severe illnesses. Use of public sector community mental health services predicted longer enrollment for the severely mentally ill people, but membership duration was unrelated to the HMO's costs for their care. This suggests that collaboration between HMOs and public mental health programs could be beneficial for people with severe mental disorders.
- Cost-containment policies may affect the distribution and style of counseling or psychotherapy for depression. This variation has been demonstrated in the RAND Medical Outcomes Study (MOS), which followed 617 depressed patients of psychiatrists, psychologists, other therapists, and general medical clinicians who were associated with pre-paid and fee-for-service plans (group practice-style HMOs; large, multi-specialty, mixed pre-paid and fee-for-service group practices; and single specialty small group and solo practices) in three urban centers (Los Angeles, Boston, Chicago). The investigators found large differences in the use of brief counseling for depressed patients of general medical clinicians compared with those of mental health specialists. Prepayment was associated with lower counseling rates than fee-for-service care among general medical patients with depressive symptoms or current depressive disorder. Counseling style differed markedly by specialty but only slightly by payment method.

INNOVATIONS IN MANAGEMENT AND ADMINISTRATION

Public Private Partnerships

Intramural Research Program (IRP) The IRP continues to develop its growing partnership with other Federal laboratories, State and local governments, universities, and pharmaceutical and biomedical technology companies. Under the mandates of the Federal Technology Transfer Act of 1986 (FTTA), as amended, and Executive Order No. 12591, IRP scientists have engaged in a steadily increasing number of collaborative research activities based on their inventions. At the end of FY 1996, nine Cooperative Research and Development Agreements (CRADAs) were active, and three new patent applications were filed from the ten Employee Invention Reports (EIRs) submitted. Additionally, three new patents were issued, bringing the total number of

patents issued to NIMH investigators to fifty. Lastly, thirteen new biological materials were also identified for licensing.

A new method to identify persons susceptible to autoimmune neuropsychiatric disorders is an example of an invention created by NIMH intramural scientists with significant potential for benefiting public health. Certain autoimmune diseases have accompanying psychological symptoms, including obsessive-compulsive behavior, hyperactivity, emotional lability, and irritability. In patients at-risk for developing these symptoms due to autoimmune disease, there is a dramatic increase in the number of B lymphocytes expressing the D8/17 alloantigen. IRP scientists have shown that detection of the D8/17 antigen predicts obsessive-compulsive disorder (OCD). Detecting the antigen holds the promise of identifying subsets of persons at genetic risk for developing other autoimmune-mediated neuropsychiatric disorders, such as Tourette's syndrome (TS) and attention-deficit/hyperactivity disorder (ADHD). The long-term benefit of an effective trait marker for such disorders would be the ability to screen at-risk children and to prevent a substantial number of children from developing these disorders each year. In the short-term, use of the D8/17 marker to identify affected and susceptible individuals will improve research into the etiology and pathophysiology of OCD, TS, and ADHD by allowing scientists to define a more homogeneous subgroup of patients for study; provide patients and their families with more accurate descriptive and prognostic information; and promote the development of prophylactic treatments designed to address the underlying mechanisms of these disorders, rather than mere symptom palliation.

Anxiety Disorders Education Program In FY 1997, NIMH launched an initiative to educate people about anxiety disorders and to decrease stigma and trivialization of these disorders. More than 23 million people suffer from anxiety disorders such as posttraumatic stress disorder (PTSD), obsessive-compulsive disorder (OCD), phobias, generalized anxiety disorder, and panic disorder. Research is beginning to illuminate the specific circuits in the brain that underlie these neurobiologically based disorders that are diagnosable and treatable. NIMH began this education effort to combat delay in receiving treatment for all types of anxiety disorders: for example, on average, patients with PTSD do not receive treatment until eight years after the traumatic event. Education about anxiety disorders is especially important, because left untreated, these disorders place people at risk for another anxiety disorder, depression, or alcohol or substance abuse problems. Because research has shown that 2/3 of sufferers have a comorbid physical illness, one facet of the campaign is aimed at primary care physicians who have a special opportunity to recognize the disorders and encourage treatment. NIMH has set up a special toll-free number: 1-888-8-ANXIETY.

Reviews of Portfolio and Other Activities NIMH has begun systematic reviews of a number of areas of research priority or special concern to its research community, Congress, and the public. Areas under review include: (1) the state of the field of genetics of mental disorders and future areas of research promise; (2) the UNOCCAP (Use, Needs, Outcomes and Costs for Child and Adolescent Populations) cooperative research program, needed because the study has evolved significantly from the original peer-reviewed concept; (3) in consultation with constituent groups,

a wide-ranging examination of how to improve communication among the diverse communities interested in NIMH activities; (4) the state of the field of prevention research, in particular, the possibility for progress in AIDS prevention models and for their transfer to mental disorders; and (5) the implementation of the recommendations of the "Blue Ribbon Panel" that has recently completed its evaluation of the NIMH intramural program.

Streamlining and Reinvention

NIMH has taken significant steps to streamline management strategies and administrative processes to enhance its effectiveness and efficiency in support of its mission. For example:

- NIMH produces quarterly scientific publications that include the *Schizophrenia Bulletin* and the *Psychopharmacology Bulletin*. These publications are among the top 100 sellers in the Government Printing Office (GPO) inventory. Taking advantage of newly available authority to solicit bids from printers and to negotiate directly with the GPO, NIMH was able to reduce the costs of printing, distribution and subscriptions service for these and other materials while securing increased quality control. NIMH is now able to deal directly with the local printer contractor and to oversee the work to maintain schedules and production excellence. The savings from this activity help to preserve other Institute operations that are similarly supported from research management and support funds.
- Because of increased computerization of the grant award procedures, fewer grants clerks are now required to process paperwork, but more grants specialists with particular expertise are needed. The Institute resolved to use its current workforce in the most practical manner and placed the clerks on COTAs (Career Opportunities Training Agreements) for education to upgrade their skills to specialists, saving NIMH the expense of new hires and retaining productive workers.
- To monitor NRSA (National Research Service Awards) payback compliance, NIMH gave a position and transferred an employee to the National Institute of General Medical Sciences (NIGMS) in a service center concept, whereby one Institute agrees to provide expert service to others needing the same type of work. NIGMS has the largest operation of NRSA awards and monitoring, which has reduced NIMH costs and provided better service.
- NIMH employees developed a program for computerized committee management. The Institute uses the program to improve the accuracy of reporting the costs associated with grant review that are paid through Chairman's grants (U09). The program has proved its usefulness and now other Institutes are using this NIMH software to better manage their committees.
- Section 301 of the Public Health Service Act allows NIMH, the National Institute on Alcohol Abuse and Alcoholism (NIAAA), and the National Institute on Drug Abuse

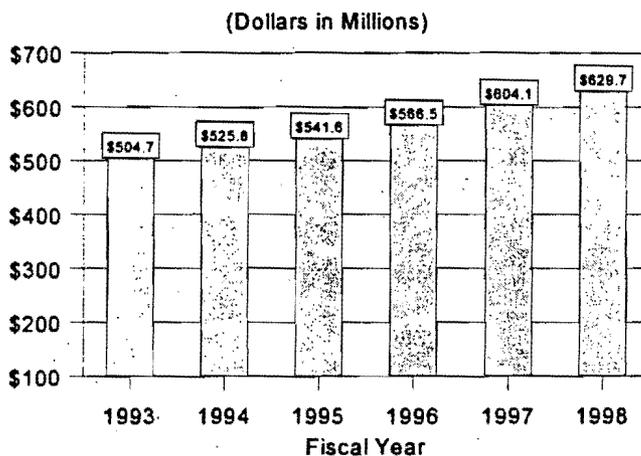
(NIDA) to issue certificates of confidentiality to researchers who demonstrate that ordinary access to their patient/subject rosters would prevent recruitment into their studies. NIMH is establishing a service center, for use by all NIH Institutes, to clear and issue these certificates. The activities have been relocated to NIMH's Office of Resource Management using current employees, saving approximately one man-year and \$80,000 per year in salary and benefits for NIMH.

- In order to maximize resources for research, NIMH is negotiating the integration of NIMH grant review with the NIH Division of Research Grants review system; this will reduce overlap in review committees and enhance the integration of neuroscience throughout all NIH institutes.

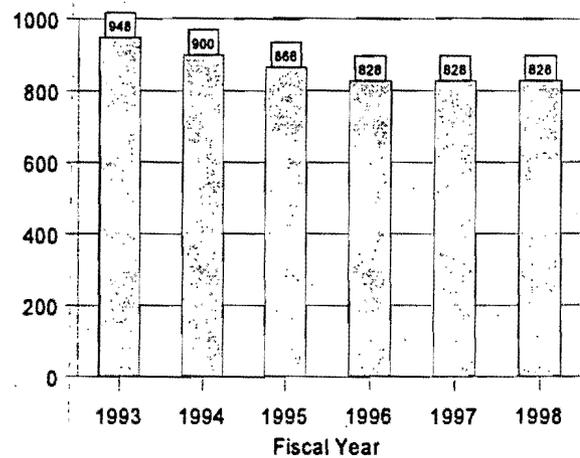
BUDGET POLICY

The FY 1998 President's request of \$629,739,000 for NIMH represents an increase of \$25,595,000, or 4.2 percent. This amount will support 828 full time equivalents (FTEs), the same number as in the FY 1997 estimate. Funding for the National Institute of Mental Health during the last five years has been as follows:

Funding Levels



FTE Levels

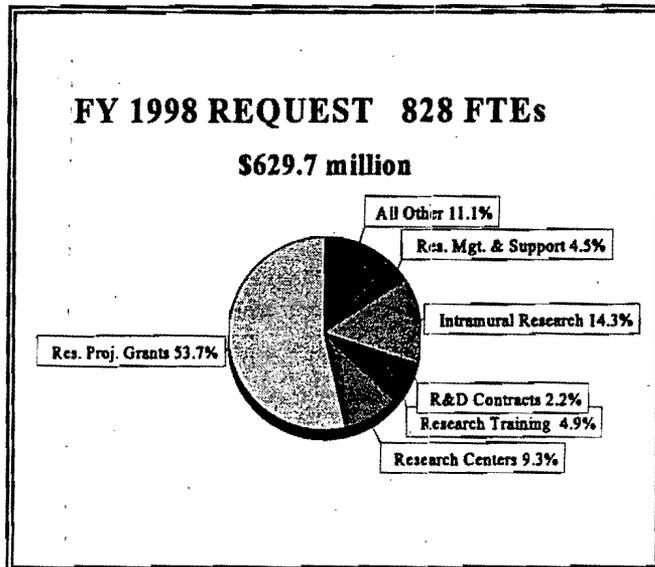


- NIH policy links research project grants (RPGs) average cost increases to total program budget requests. The FY 1998 President's Budget requests a 2.6 percent increase for NIH. Thus, Cost Management Plan increases of two percent will be provided for RPGs. In general, individual noncompeting RPGs will receive increases of two percent over FY 1997 levels. Average costs of competing RPGs will increase by up to two percent over FY 1997.

These increases parallel current projections for FY 1998 inflation indices of 3.1 percent for the Biomedical Research and Development Price Index (BRDPI) and 2.6 percent for the Gross Domestic Product (GDP).

- The total request for NIMH includes:
 - \$338,308,000 for research project grants, an increase of \$20,731,000, or 6.5 percent.
 - \$58,749,000 for 50 centers, an increase of \$1,152,000, or 2 percent.
 - \$70,080,000 for other research, an increase of \$1,374,000 or 2 percent.
 - \$30,912,000 for research training, an increase of \$606,000, or 2 percent.
 - \$13,587,000 for R&D contracts, an increase of \$266,000, or 2 percent.
 - \$90,028,000 for Intramural research, an increase of \$1,466,000, or 1.7 percent, and \$28,075,000 for research management and support, which remains at the FY 1997 level.

NIMH - Mechanisms as % of total



SPECIAL EMPHASIS AREAS

In FY 1998, NIMH plans to spend \$21,000,000 in NIH special emphasis funds for investigator-initiated research on:

- “The Biology of Brain Disorders” (\$6,000,000)— NIMH intends to expand research on neurobiology, neurodevelopment, and behavior. Our increasing ability to manipulate the mouse genome has created remarkable new scientific opportunities to understand brain development and function, along with the genetics of behavior, including support for studies of targeted gene “knock-out” and “knock-in” mice. NIMH is also expanding research in the neurobiology of emotion and motivation using functional magnetic resonance imaging.
- “New Avenues for Development of Therapeutics” (\$8,000,000)— NIMH plans to expand efforts to discover and develop drugs to combat mental illness in all age groups. Chemistry, structural biology, genetic information and advances in cell biology are providing new tools for these advances. Already, fundamental discoveries about brain and behavior are having an immediate impact on clinical research directions and, in turn, on the efficacy of treatments available to persons with mental illness. The introduction of novel, second-generation antipsychotic drugs that began with Clozaril (clozapine) has been followed in quick succession by the recently marketed Zyprexa (olanzapine), risperidone

(Risperdal), and the soon-to-be-marketed Seroquel (dibenzothiazepine) and sertindole. The new medications are ushering in dramatic and rapid enhancements in the treatment of schizophrenia and schizoaffective disorder. By 1998, front-line clinicians across the Nation will need to know which of an array of first- and second-generation drugs to try with what type of patient. To ensure that they possess the necessary information, NIMH proposes a research initiative that would serve to inform clinical guidelines and clinical practice. The proposed research will explore the use of the new anti-psychotic medications for patients who vary in the type of schizophrenia they have and in the stage of their illness; the differences include first-break, chronic, treatment-resistant, with comorbid substance abuse, and with associated depression.

- “Genetic Medicine” (\$5,000,000)— NIMH proposes greatly expanding research efforts in the genetics of mental disorders. The genetics of the serious, common mental disorders--schizophrenia, schizoaffective disorder, manic depressive illness, major depression, autism, panic disorder, and obsessive-compulsive disorder--have proved extremely complex. Past approaches did not have the statistical power to discover vulnerability genes. Because of the need for very large samples, this expanded effort will require a substantial multi-year investment. In addition, since genetics may be the most important tool we possess to decipher the pathogenesis of these disorders, we are undertaking a fast track evaluation of the current status of the field and an examination of future research areas.
- “Developmental and Advanced Instrumentation” (\$2,000,000)— NIMH is upgrading neuroimaging capabilities that will be used by a wide range of NIH scientists from different disciplines.

NATIONAL INSTITUTES OF HEALTH

National Institute of Mental Health

Budget Mechanism

	FY 1996 Actual		FY 1997 Estimate		FY 1998 Estimate	
	No.	Amount	No.	Amount	No.	Amount
Research Projects						
Noncompeting	869	\$215,349,000	841	\$210,186,000	951	\$236,246,000
Administrative supplementals	(36)	2,190,000	(36)	2,271,000	(36)	2,341,000
Competing:						
Renewal	102	28,728,000	145	27,062,000	132	24,898,000
New	246	34,214,000	344	64,388,000	321	60,321,000
Supplemental	6	1,209,000	8	1,866,000	5	1,717,000
Subtotal, competing	354	64,151,000	497	93,316,000	458	86,936,000
SBIR/STTR	43	8,798,000	56	11,804,000	56	12,785,000
Subtotal, RPGs	1,266	290,488,000	1,394	317,577,000	1,465	333,308,000
Research Centers						
Specialized/comprehensive	50	54,926,000	50	57,597,000	50	58,749,000
Clinical research	0	0	0	0	0	0
Biotechnology	0	0	0	0	0	0
Comparative medicine	0	0	0	0	0	0
Research centers in minority institutions	0	0	0	0	0	0
Subtotal, Centers	50	54,926,000	50	57,597,000	50	58,749,000
Other Research						
Research careers	290	32,362,000	290	33,236,000	290	33,901,000
Cancer education	0	0	0	0	0	0
Cooperative clinical research	31	9,411,000	31	9,665,000	31	9,858,000
Biomedical research support	0	0	0	0	0	0
Minority biomedical research support	0	0	0	0	0	0
Other	50	23,580,000	49	25,805,000	49	26,321,000
Subtotal, Other Research	371	65,353,000	370	68,706,000	370	70,080,000
Total, Research Grants	1,687	410,767,000	1,814	443,880,000	1,885	467,137,000
Training	FTEs		FTEs		FTEs	
Individual	255	4,589,000	255	5,252,000	255	5,357,000
Institutional	987	23,160,000	987	25,054,000	987	25,555,000
Total, Training	1,242	27,749,000	1,242	30,306,000	1,242	30,912,000
Research & development contracts (SBIR/STTR)	35 (4)	12,971,000 (415,000)	35 (1)	13,321,000 (426,000)	35 (1)	13,587,000 (435,000)
Intramural research	FTEs 521	86,899,000	FTEs 516	88,562,000	FTEs 516	90,028,000
Research management and support	307	28,090,000	312	28,075,000	312	28,075,000
Cancer prevention & control	0	0	0	0	0	0
Construction	0	0	0	0	0	0
Total, NIMH	828	566,476,000	828	604,144,000	828	629,739,000
(Clinical Trials)		(54,594,000)		(58,510,000)		(61,162,000)

Note: Includes FTEs associated with HIV/AIDS research activities. Funds to support these FTEs are included in the Office of AIDS Research.

NATIONAL INSTITUTES OF HEALTH

National Institute of Mental Health

Budget Authority by Activity
(dollars in thousands)

	FY 1996 Actual		FY 1997 Estimate		FY 1998 Estimate		Change	
	FTEs	Amount	FTEs	Amount	FTEs	Amount	FTEs	Amount
Extramural Research:								
Extramural research and training		451,426		487,507		511,636		24,129
Subtotal, Extramural research		451,426		487,507		511,636		24,129
Intramural research	521	86,899	516	88,562	516	90,028	0	1,466
Research management and support	307	28,090	312	28,075	312	28,075	0	0
Total obligations	828	566,415	828	604,144	828	629,739	0	25,595
Unobligated balance lapsing		61		0		0		0
Total, budget authority	828	566,476	828	604,144	828	629,739	0	25,595

Note: Includes FTEs associated with HIV/AIDS research activities. Funds to support these FTEs are included in the Office of AIDS Research.

NATIONAL INSTITUTES OF HEALTH

National Institute of Mental Health

Summary of Changes

1997 Estimated budget authority		\$604,144,000	
1998 Estimated budget authority		629,739,000	
Net change		25,595,000	
	1997 Current Estimate Base		Change from Base
	FTEs	Budget Authority	FTEs Budget Authority
Changes:			
A. Built-in:			
1. Intramural research:			
a. Within grade increase		\$36,508,000	\$540,000
b. Annualization of January 1997 pay increase		36,508,000	304,000
c. January 1998 pay increase		36,508,000	767,000
d. Legislative proposal, 1.51% increase in the CSRS rate		36,508,000	152,000
e. Service and supply fund		10,757,000	280,000
f. Increased cost of laboratory supplies, materials, and other expenses		13,148,000	342,000
Subtotal			2,385,000
2. Research Management and Support:			
a. Within grade increase		20,471,000	360,000
b. Annualization of January 1997 pay increase		20,471,000	170,000
c. January 1998 pay increase		20,471,000	430,000
d. Legislative proposal, 1.51% increase in the CSRS rate		20,471,000	133,000
e. Service and supply fund		2,792,000	73,000
f. Increased cost of laboratory supplies, materials, and other expenses		3,355,000	88,000
Subtotal			1,254,000
Subtotal, Built-in			3,639,000

NATIONAL INSTITUTES OF HEALTH

National Institute of Mental Health
Summary of Changes—continued

	1997 Current Estimate Base		Change from Base	
	No.	Amount	No.	Amount
B. Program:				
1. Research projects grants:				
a. Noncompeting	841	212,457,000	110	26,130,000
b. Competing	497	93,316,000	0	(6,380,000)
c. SBIR/STTR	56	11,804,000	3	981,000
Total	1,394	317,577,000	113	20,731,000
2. Centers		57,597,000		1,152,000
3. Other research		68,706,000		1,374,000
4. Research training		30,306,000		606,000
5. Research and development contracts		13,321,000		266,000
6. Intramural research:				
a. Programmatic changes	516	88,562,000	0	(919,000)
b. Special emphasis areas	0	0	0	0
Subtotal, intramural	516	88,562,000	0	(919,000)
7. Research management and support	312	28,075,000	0	(1,254,000)
Subtotal, program				21,956,000
Total changes				25,595,000

NATIONAL INSTITUTES OF HEALTH

National Institute of Mental Health

Budget Authority by Object

	FY 1997 Estimate	FY 1998 Estimate	Increase or Decrease
Total compensable workyears:			
Full-time employment	828	828	0
Full-time equivalent of overtime and holiday hours	4	4	0
Average ES salary	\$114,604	\$120,351	\$5,747
Average GM/GS grade	10.2	10.2	0
Average GM/GS salary	\$47,107	\$48,096	\$989
Average salary, grades established by act of July 1, 1944 (42 U.S.C. 207)	\$57,929	\$59,145	\$1,216
Average salary of ungraded positions	\$50,143	\$51,196	\$1,053
	FY 1997 Estimate	FY 1998 Estimate	Increase or Decrease
Personnel Compensation:			
11.1 Full-Time Permanent	31,570,000	32,833,000	\$1,263,000
11.3 Other than Full-Time Permanent	8,584,000	8,927,000	343,000
11.5 Other Personnel Compensation	1,785,000	1,856,000	71,000
11.8 Special Personnel Services Payments	5,195,000	5,403,000	208,000
11.9 Total Personnel Compensation	47,134,000	49,019,000	1,885,000
12.0 Personnel Benefits	9,805,000	10,197,000	392,000
13.0 Benefits for Former Personnel	40,000	42,000	2,000
Subtotal, Pay Costs	56,979,000	59,258,000	2,279,000
21.0 Travel & Transportation of Persons	776,000	765,000	(11,000)
22.0 Transportation of Things	172,000	169,000	(3,000)
23.1 Rental Payments to GSA	0	0	0
23.2 Rental Payments to Others	1,269,000	1,251,000	(18,000)
23.3 Communications, Utilities & Miscellaneous Charges	2,234,000	2,201,000	(33,000)
24.0 Printing & Reproduction	527,000	519,000	(8,000)
25.1 Consulting Services	348,000	343,000	(5,000)
25.2 Other Services	4,033,000	3,974,000	(59,000)
25.3 Purchase of Goods & Services from Government Accounts	45,782,000	45,471,000	(311,000)
25.4 Operation & Maintenance of Facilities	0	0	0
25.5 Research & Development Contracts	4,667,000	4,760,000	93,000
25.6 Medical Care	0	0	0
25.7 Operation & Maintenance of Equipment	1,210,000	1,192,000	(18,000)
25.8 Subsistence & Support of Persons	0	0	0
25.0 Subtotal, Other Contractual Services	56,040,000	55,740,000	(300,000)
26.0 Supplies & Materials	5,016,000	4,943,000	(73,000)
31.0 Equipment	6,727,000	6,629,000	(98,000)
32.0 Land and Structures	0	0	0
33.0 Investments & Loans	0	0	0
41.0 Grants, Subsidies & Contributions	474,186,000	498,049,000	23,863,000
42.0 Insurance Claims & Indemnities	214,000	211,000	(3,000)
43.0 Interest & Dividends	4,000	4,000	0
44.0 Refunds	0	0	0
Subtotal, Non-Pay Costs	547,165,000	570,481,000	23,316,000
			0
Total Budget Authority by Activity	604,144,000	629,739,000	25,595,000

Note: Includes FTEs associated with HIV/AIDS research activities. Funds to support these FTEs are included in the NIH Office of AIDS Research.

NATIONAL INSTITUTES OF HEALTH

National Institute of Mental Health

Administrative Cost

	FY 1997 Estimate	FY 1998 Estimate	Change
Personnel Compensation:			
Full-Time Permanent (11.1)	\$31,570,000	\$32,833,000	\$1,263,000
Other Than Full-Time Permanent (11.3)	8,584,000	8,927,000	343,000
Other Personnel Compensation (11.5)	1,785,000	1,856,000	71,000
Special Personnel Services Payments (11.8)	5,195,000	5,403,000	208,000
Total Personnel Compensation (11.9)	47,134,000	49,019,000	1,885,000
Civilian Personnel Benefits (12.0)	9,805,000	10,197,000	392,000
Benefits to Former Personnel (13.0)	40,000	42,000	2,000
Subtotal, Pay Costs	56,979,000	59,258,000	2,279,000
Travel (21.0)	776,000	765,000	(11,000)
Transportation of Things (22.0)	172,000	169,000	(3,000)
Rental Payments to Others (23.2)	1,269,000	1,251,000	(18,000)
Communications, Utilities and Miscellaneous Charges (23.3)	2,234,000	2,201,000	(33,000)
Printing and Reproduction (24.0)	527,000	519,000	(8,000)
Other Contractual Services:			
Advisory and Assistance Services (25.1)	348,000	343,000	(5,000)
Other Services (25.2)	4,033,000	3,974,000	(59,000)
Purchases from Govt. Accounts (25.3)	37,128,000	36,644,000	(484,000)
Operation & Maintenance of Facilities (25.4)	0	0	0
Operation & Maintenance of Equipment (25.7)	1,210,000	1,192,000	(18,000)
Subsistence & Support of Persons (25.8)	0	0	0
Subtotal Other Contractual Services	42,719,000	42,153,000	(566,000)
Supplies and Materials (26.0)	5,003,000	4,930,000	(73,000)
Subtotal, Non-Pay Costs	52,700,000	51,988,000	(712,000)
Total, Administrative Cost	109,679,000	111,246,000	1,567,000

NATIONAL INSTITUTES OF HEALTH

National Institute of Mental Health

SIGNIFICANT ITEMS IN THE HOUSE AND SENATE
APPROPRIATIONS COMMITTEE REPORTS

1997 House Appropriations Committee Report Language

Item

Research Mission - The Committee notes that NIMH's new director has indicated his intention to conduct a full review of the Institute's research portfolio as he considers NIMH's research mission and priorities. The Committee strongly supports this internal effort, and expects to hear the results at next year's hearings."

Action Taken or to be Taken

The Director, National Institute of Mental Health (NIMH), has initiated a series of internal reviews together with the National Advisory Mental Health Council (NAMHC). Fiscal accountability and expanding scientific opportunities require greater emphasis on research planning and prioritization. The Institute is taking appropriate actions to review and ensure balance in the Institute's overall research portfolio. Internal assessment of all research projects has been conducted based on: a) scientific opportunities, b) needs of the mental health research community, and c) current Institute research strengths. In order to ensure optimal planning and resource utilization by the Institute, advisory groups comprised of external experts are: (1) evaluating the mission, infrastructure, and scientific strengths and weaknesses of the NIMH Intramural Research Program; (2) evaluating the Institute's prevention research, (3) reviewing and recommending strategies for research on the genetics of mental illness, and (4) evaluating the research design and resource allocations for a coordinated national effort to obtain information on childhood mental disorders in the United States. The Director welcomes the opportunity to brief the Committee on the results of any or all of these reviews.

Item

Clinical Experiences - The Committee understands that much basic behavioral research can be brought to bear on the most serious mental disorders and encourages NIMH to develop mechanisms to build a generation of basic behavioral researchers who are sensitive to clinical issues."

Action Taken or to be Taken

NIMH endorses the committee's assertion that basic behavioral science research should be brought to bear on serious mental disorders and other clinical issues. The Institute plans to increase translations from basic behavioral science to the clinical domain, particularly with regard to influencing junior investigators. For example, NIMH is examining the possibility of expanding its Centers for Behavioral Science Research (which currently are designed to integrate across social, psychological, and biological levels of analysis) to include designs that link basic and clinical domains. Junior investigators and trainees constitute an integral part of the centers as currently designed, and the adoption of an integrative basic-clinical design would provide a meaningful training opportunity in integrative research at a formative career stage. Another possibility is outreach to junior investigators in conferences and workshops as participants or attendees, as exemplified by the recent NIMH conference, "Advancing Research in Developmental Plasticity: Integrating the Behavioral Science and the Neuroscience of Mental Health," which involved both basic and clinical perspectives. Plans for an upcoming integrative workshop on the contribution of basic cognitive science to the understanding of anxiety and anxiety disorders also include junior investigators.

Item

Social Work Research - The Committee is pleased with NIMH's funding of social work research development centers. The Committee requests that NIMH be prepared to report on the implementation of the recommendations of the NIMH-task force report on social work research at its fiscal year 1998 budget hearings."

Action Taken or to be Taken

NIMH has been actively implementing the recommendations of the Task Force on Social Work Research. The two major recommendations were that NIMH (1) continue to support and develop the research infrastructure in schools of social work using the Social Work Research Development Center (SWRDC) mechanism and (2) increase its support for research career development in social work.

The Social Work Research Development Center announcement has been continued with a once a year receipt date of February 1. During FY 1996, eight applications were reviewed and two new SWRDCs at Portland State University and at University of Washington, Seattle were funded. In all, five SWRDCs received funding in FY 1996. One new research project at Washington University, St. Louis was funded and two Research Enhancement Projects, related to the new SWRDC at the University of Washington, Seattle are pending.

Research grant support of social workers has also increased. In FY 1996, there were 19 new or competing renewal research and research training grants to social workers. A research

training program at Columbia University directed by a social worker at the Research Institute of the National Association of State Mental Health Program Directors supports five predoctoral students and a postdoctoral program. NIMH continues to support research training in social work at Brandeis University, UC-Berkeley, University of Chicago, Washington University--St. Louis, and the Minority Fellowship Program at the Council on Social Work Education. Individual predoctoral fellowships in social work were also funded at the University of Wisconsin, the University of Washington, and the University of North Carolina. Dissertation Research Grants were awarded to 4 social work students in FY 1996 at: UC-Berkeley; Washington University--St. Louis; University of Southern California; and Columbia University. Support to the Institute for the Advancement of Social Work Research (IASWR) provides technical assistance to schools, faculty, graduate students, and social work practitioners. With the assistance of IASWR the National Association of Deans and Directors of Schools of Social Work are developing a report on ways to improve research and research infrastructure in schools of social work. Professional services contracts provide support for curriculum development in mental health services research at the graduate and baccalaureate levels.

Item

Research Plans - The Committee is pleased to learn that NIMH supported the development of a behavioral science research plan aimed at reducing depression, schizophrenia, and other severe mood and anxiety disorders. The Committee encourages NIMH to consider the plan in determining its research priorities, and looks forward to discussing the use of the plan in next year's appropriations hearings."

Action Taken or to be Taken

NIMH supports the goals of the behavioral science research plan, developed under the auspices of the Human Capital Initiative (HCI), through conferences, workshops, and, most importantly, research programs that foster the understanding of the origins and scope of mental illnesses, factors that influence the risk of mental disorder, interventions, and services research issues including barriers to access to treatment and services. For example, the Institute has actively pursued the integration of social, psychological, and biological perspectives in scientific understanding of the determinants of mental health and mental illness through NIMH Centers for Behavioral Science Research. In addition, ongoing programs actively foster research on social risk factors, psychological predispositions that may influence vulnerability to disorder, cognitive and attentional factors that may constitute risk, and protective factors. Recent programmatic activities have focused on the integration of basic research and clinical perspectives in the investigation of risk. Conferences such as "Advancing Research in Developmental Plasticity: Integrating the Behavioral Science and the Neuroscience of Mental Health," and future interdisciplinary workshops that will focus

on the application of basic cognitive psychology to understanding clinical topics in depression and anxiety also support the goals of the research plan.

We are pleased that the committee supports the National Advisory Mental Health Council's report, "Basic Behavioral Science Research for Mental Health: A National Investment," and its recommendations. With respect to the specific recommendations noted by the committee: (1) FY 1996 funding for the portfolio of basic behavioral science supported by the NIMH Behavioral, Cognitive and Social Sciences Research Branch increased nearly six percent over FY 1995; (2) possible mechanisms specific to longitudinal behavioral science research are being considered; and (3) various groups in NIMH and in the Division of Research Grants have been working intensively to assure expert specialized review once NIMH's review system becomes merged with that of the NIH Division of Research Grants.

1997 Senate Appropriations Committee Report Language

Item

Research reviews - The Committee encourages the new Director of NIMH in his efforts to scrutinize the Institute's research portfolio as part of his commitment to reconsider the Institute's priorities and overall direction. The Committee expects to be briefed on the results of his review."

Action Taken or to be Taken

The Director, National Institute of Mental Health (NIMH), has initiated a series of internal reviews together with the National Advisory Mental Health Council (NAMHC). Fiscal accountability and expanding scientific opportunities require greater emphasis on research planning and prioritization. The Institute is taking appropriate actions to review and ensure balance in the Institute's overall research portfolio. Internal assessment of all research projects has been conducted based on: a) scientific opportunities, b) needs of the mental health research community, and c) current Institute research strengths. In order to ensure optimal planning and resource utilization by the Institute, advisory groups comprised of external experts are: (1) evaluating the mission, infrastructure, and scientific strengths and weaknesses of the NIMH Intramural Research Program; (2) evaluating the Institute's prevention research, (3) reviewing and recommending strategies for research on the genetics of mental illness, and (4) evaluating the research design and resource allocations for a coordinated national effort to obtain information on childhood mental disorders in the United States. The Director welcomes the opportunity to brief the Committee on the results of any or all of these reviews.

Item

Research on brain disorders - The Committee believes it is important that the Institute continue its mission with regard to basic clinical, scientific, and services research for individuals suffering from severe, biologically based mental illnesses such as schizophrenia, bipolar disorder, major depression, obsessive-compulsive disorder, and panic disorder. The Committee believes the new Director should pay particular attention to updating the four research plans relevant to these brain disorders: the national plan for schizophrenia research, national plan for research on children and adolescent mental disorders, approaching the 21st century: opportunities for NIMH neuroscience research, and caring for people with severe mental disorders: a national plan of research to improve services. The Committee expects to be briefed on the results of his review."

Action Taken or to be Taken

Much of the impetus for NIMH's scientific accomplishments from the mid-1980s through the mid-1990s was an outcome of four acclaimed scientific strategic plans developed by the National Advisory Mental Health Council: A National Plan for Schizophrenia Research; Approaching the 21st Century – Opportunities for NIMH Neuroscience Research; a National Plan for Research on Child and Adolescent Mental Disorders; and Caring for People with Severe Mental Disorders – A National Plan of Research to Improve Services. Each of these comprehensive reviews of research needs and opportunities in targeted fields of inquiry offered direction for NIMH's research investments and have served as benchmarks of progress in the respective fields. The NIMH Director has initiated a multi-year, systematic evaluation of the Institute's scientific programs and priorities. Reviews and updates of the research agendas set forth in the four national plans will be part of the Institute-wide assessment; however, the rapid pace and evolution of mental health science dictate that priority attention be directed to various discrete areas, such as the genetics of mental illness, prevention, and childhood mental disorders. The plans are slated for re-review in the near future.

Item

Emergency medical services for children - The Committee remains supportive of EMS-C projects that address the mental health component of emergency health services in conjunction with the physical care aspects of EMS-C, and encourages NIMH to collaborate with various professional organizations, such as the American Academy of Pediatrics, to develop comprehensive EMS-C care standards that support the family."

Action Taken or to be Taken

NIMH continues its collaborative arrangement with the Bureau of Maternal and Child Health (MCH) and other Federal agencies to support research on the mental health needs of children and families related to pediatric physical trauma and other emergency medical services. This year NIMH, with joint funding from MCH, supplemented a Center for Research on Children's Mental Health Services Research to examine these issues.

Item

Clinical experiences - The Committee appreciates that a great deal of basic behavioral research that can be brought to bear on the most serious of mental disorders and encourages NIMH to develop mechanisms to build a generation of basic behavioral researchers who are sensitive to clinical issues. For example, the Committee encourages the Institute to give consideration to allowing nonclinical graduate students in psychology and other behavioral sciences to have research experiences on NIMH grants in medical settings. Similarly, for clinical psychology programs, particularly those housed outside of medical schools, the Committee encourages NIMH to provide student support for research in settings in which severe mental disorders are the focus."

Action Taken or to be Taken

NIMH endorses the committee's assertion that basic behavioral science research should be brought to bear on serious mental disorders and other clinical issues. The Institute plans to increase translations from basic behavioral science to the clinical domain, particularly with regard to influencing junior investigators. For example, NIMH is examining the possibility of expanding its Centers for Behavioral Science Research (which currently are designed to integrate across social, psychological, and biological levels of analysis) to include designs that link basic and clinical domains. Junior investigators and trainees constitute an integral part of the centers as currently designed, and the adoption of an integrative basic-clinical design would provide a meaningful training opportunity in integrative research at a formative career stage. Another possibility is outreach to junior investigators in conferences and workshops as participants or attendees, as exemplified by the recent NIMH conference, "Advancing Research in Developmental Plasticity: Integrating the Behavioral Science and the Neuroscience of Mental Health," which involved both basic and clinical perspectives. Plans for an upcoming integrative workshop on the contribution of basic cognitive science to the understanding of anxiety and anxiety disorders also include junior investigators.

Finally, regarding the committee suggestion that we provide opportunities for graduate students to have research experiences in settings more intensively clinical than their own, NIMH is exploring the use of administrative supplements to research grants in medical departments. These supplements would be analogous to the current supplements for

underrepresented minorities and for students with disabilities. In this instance, the supplements would be for the support of basic or clinical psychology (or other behavioral science) students to increase their exposure to clinical issues by spending time in medical settings.

Item

Research Plans - The Committee is pleased that NIMH supported the development of a behavioral science research plan aimed at reducing depression, schizophrenia, and other severe mood and anxiety disorders. The plan, reducing mental disorders: a behavioral science research plan for psychopathology, was developed under the auspices of the human capital initiative and has been endorsed by an impressive range of scientific organizations. The Committee urges NIMH to use the plan in determining its research priorities, and requests the Institute to be prepared to report on how it intends to use this plan during the fiscal year 1988 hearings. Finally, the Committee reiterates its support for the National Advisory Mental Health Council's report, "Basic Behavioral Science Research for Mental Health: A National Investment." In particular, the Committee supports recommendations to fund more investigator-initiated behavioral research, provide new funding mechanisms for longitudinal behavioral research, and expand study sections for the best possible review of behavioral science."

Action Taken or to be Taken

NIMH supports the goals of the behavioral science research plan, developed under the auspices of the Human Capital Initiative (HCI), through conferences, workshops, and, most importantly, research programs that foster the understanding of the origins and scope of mental illnesses, factors that influence the risk of mental disorder, interventions, and services research issues including barriers to access to treatment and services. For example, the Institute has actively pursued the integration of social, psychological, and biological perspectives in scientific understanding of the determinants of mental health and mental illness through NIMH Centers for Behavioral Science Research. In addition, ongoing programs actively foster research on social risk factors, psychological predispositions that may influence vulnerability to disorder, cognitive and attentional factors that may constitute risk, and protective factors. Recent programmatic activities have focused on the integration of basic research and clinical perspectives in the investigation of risk. Conferences such as "Advancing Research in Developmental Plasticity: Integrating the Behavioral Science and the Neuroscience of Mental Health," and future interdisciplinary workshops that will focus on the application of basic cognitive psychology to understanding clinical topics in depression and anxiety also support the goals of the research plan.

We are pleased that the committee supports the National Advisory Mental Health Council's report, "Basic Behavioral Science Research for Mental Health: A National Investment," and

its recommendations. With respect to the specific recommendations noted by the committee: (1) FY 1996 funding for the portfolio of basic behavioral science supported by the NIMH Behavioral, Cognitive and Social Sciences Research Branch increased nearly six percent over FY 1995; (2) possible mechanisms specific to longitudinal behavioral science research are being considered; and (3) various groups in NIMH and in the Division of Research Grants have been working intensively to assure expert specialized review once NIMH's review system becomes merged with that of the NIH Division of Research Grants.

Item

Social work research- The Committee commends NIMH for funding its fourth social work research development center, and urges NIMH to give consideration to expanding the number of centers. The Committee also requests that NIMH be prepared to report on the implementation of the recommendations of the 1991 NIMH task force report on "Social Work Research" at its fiscal year 1998 budget hearings."

Action Taken or to be Taken

NIMH has been actively implementing the recommendations of the Task Force on Social Work Research. The two major recommendations were that NIMH (1) continue to support and develop the research infrastructure in schools of social work using the Social Work Research Development Center (SWRDC) mechanism and (2) increase its support for research career development in social work.

The Social Work Research Development Center announcement has been continued with a once a year receipt date of February 1. During FY 1996, eight applications were reviewed and two new SWRDCs at Portland State University and at University of Washington, Seattle were funded. In all, five SWRDCs received funding in FY 1996. One new research project at Washington University, St. Louis was funded and two Research Enhancement Projects, related to the new SWRDC at the University of Washington, Seattle are pending.

Research grant support of social workers has also increased. In FY 1996, there were 19 new or competing renewal research and research training grants to social workers. A research training program at Columbia University directed by a social worker at the Research Institute of the National Association of State Mental Health Program Directors supports five predoctoral students and a postdoctoral program. NIMH continues to support research training in social work at Brandeis University, UC-Berkeley, University of Chicago, Washington University--St. Louis, and the Minority Fellowship Program at the Council on Social Work Education. Individual predoctoral fellowships in social work were also funded at the University of Wisconsin, the University of Washington, and the University of North Carolina. Dissertation Research Grants were awarded to 4 social work students in FY 1996

at: UC-Berkeley; Washington University--St. Louis; University of Southern California; and Columbia University. Support to the Institute for the Advancement of Social Work Research (IASWR) provides technical assistance to schools, faculty, graduate students, and social work practitioners. With the assistance of IASWR the National Association of Deans and Directors of Schools of Social Work are developing a report on ways to improve research and research infrastructure in schools of social work. Professional services contracts provide support for curriculum development in mental health services research at the graduate and baccalaureate levels.

Item

The second decade of life - The Committee notes that the incidence of psychosocial disorders is higher among individuals in their second decade of life than in older people. Accordingly, the Committee urges NIMH to join with NICHD, NINR, and other Institutes to support basic research on this period of the lifespan."

Action Taken or to be Taken

The second decade of life is indeed a time of increased incidence of mental disorders, including depression (especially for females), schizophrenia, antisocial personality disorder, and conduct disorder. Basic research in emotion, perception and cognition, parenting, peer relationships, and cultural differences in the incidence and manifestation of symptoms all are important for understanding this increase. Approximately \$100,000,000 in research and training that includes the age period 13-17 was supported across NIMH in FY 1996. Approximately \$8,000,000 of this amount was basic behavioral science. We would be pleased to work with other institutes to increase support for those basic behavioral science topics that are most likely to contribute to identification of causal risk factors for mental disorder, as well as diagnosis, treatment and prevention of mental disorder during this vulnerable period of life.

Item

Victims of torture - The Committee is aware that within the United States there is a significant number of persons who have been tortured by foreign governments. The Committee encourages NIMH to support research in methods of treating victims of torture and give consideration to supporting a systematic study of the torture victim population in the United States." (Also see Senate report page 144 in ACF section)

Action Taken or to be Taken

In response to Congressional interest in this area, NIMH officials began a series of discussions with key Congressional staff in 1995 regarding such a study. These discussions identified the need to bring together staff from several centers for treatment of refugees and victims of torture, human rights organizations, and researchers in this and related areas. NIMH, in collaboration with the office of Senator Paul Wellstone, the Office of Refugee Resettlement, and the Center for Mental Health Services will co-sponsor a two-day conference on this topic on April 10-11, 1997. The conference will gather representatives of many of the major refugee/asylee centers providing physical and mental health services in the United States, as well as leading researchers in the fields of trauma and refugee mental health. The meetings will provide a forum for the presentations of epidemiological information, service delivery models, and fundamental research findings and gaps in research that need to be addressed. A Program Announcement (PA) was issued (May 1995) requesting grant applications concerned with "Research on Violence and Traumatic Stress." This PA encourages "studies of both short-term crisis intervention and long-term mental health treatment for victims...of major traumatic events, such as combat and war, natural and technological disaster, refugee trauma and relocation, and torture." NIMH has supported a number of research projects related to extreme trauma and refugee mental health and anticipates that the conference and related activities will stimulate additional research.

NATIONAL INSTITUTES OF HEALTH

National Institute of Mental Health

Authorizing Legislation

NIMH - 41

	PHS Act/ Other Citation	U.S. Code Citation	1997 Amount Authorized	1997 Estimate	1998 Amount Authorized	1998 Budget Estimate
Research and Investigation	Section 301	42§241	Indefinite		Indefinite	
				>		>
				\$573,838,000		\$598,827,000
National Institute of Mental Health	Section 454R(d)	42§285P	a)		b)	
National Research Service Awards	Section 487(d)	42§288(d)	a)	30,306,000	b)	30,912,000
Total, Budget Authority				604,144,000		629,739,000

a) Funding provided under Omnibus Consolidated Appropriation Act, 1997, (P. L. 104-208).

NATIONAL INSTITUTES OF HEALTH

National Institute of Mental Health

Appropriation History

Fiscal Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation 1/
1993	n/a	n/a	574,803,000	583,561,000 2/
1994	576,015,000	613,444,000	613,444,000	613,444,000
1995 3/	545,223,000	541,687,000	543,687,000	542,989,000 4/
1995 Rescission				-789,000
1996	558,580,000 3/	661,328,000	550,632,000 3/	661,328,000
1996 Rescission				-706,000
1997	578,149,000 3/	701,247,000	589,187,000 3/	701,107,000 5/
1998	629,739,000 3/			

n/a = Not Applicable

1/ Reflects enacted supplements, rescissions, and reappropriations. Prior to the FY 1993 Senate Allowance, NIMH was a component of the ADAMHA appropriation.

2/ Excludes enacted administrative reductions of \$4,723,000, \$81,000, and \$1,981,000.

3/ Excludes funds for HIV research activities consolidated in the NIH office of AIDS Research.

4/ Excludes enacted administrative reduction of \$561,000.

5/ Excludes enacted administrative reduction of \$478,000

NATIONAL INSTITUTES OF HEALTH

National Institute of Mental Health

Detail of Full-Time Equivalent Employment (FTE)

	FY 1996 Actual	FY 1997 Estimate	FY 1998 Estimate
Office of the Director	136	141	141
Division of Neuroscience and Behavioral Science	30	30	30
Division of Clinical and Treatment Research	49	49	49
Division of Epidemiology and Services Research	48	48	48
Division of Extramural Activities	44	44	44
Division of Intramural Research	521	516	516
Total, NIMH	828	828	828
	Average GS/GM Grade		
1993	10.2		
1994	10.2		
1995	10.1		
1996	10.2		
1997	10.2		
1998	10.2		

Note: Includes FTEs associated with HIV Research Activities. Funds to support these FTEs are included in the Office of AIDS Research.

NATIONAL INSTITUTES OF HEALTH
National Institute of Mental Health
Program Administration

Detail of Positions

	FY 1996 Actual	FY 1997 Estimate	FY 1998 Estimate
ES-6	3	3	3
ES-5	2	2	2
ES-4	8	8	8
ES-3	2	2	2
ES-2	1	2	2
Subtotal	16	17	17
Total - ES Salary	\$1,757,200	\$1,948,273	\$2,045,965
GS/GM-15	51	51	51
GS/GM-14	91	91	91
GS/GM-13	66	66	66
GS-12	70	70	70
GS-11	90	90	90
GS-10	2	2	2
GS-9	89	89	89
GS-8	44	44	44
GS-7	107	107	107
GS-6	23	23	23
GS-5	17	17	17
GS-4	29	29	29
GS-3	4	4	4
GS-2	2	2	2
GS-1	1	1	1
Subtotal	686	686	686
Grades established by Act of July 1, 1944 (42 U.S.C. 207):			
Assistant Surgeon General	1	1	1
Director Grade	25	25	25
Senior Grade	10	10	10
Full Grade	10	10	10
Senior Assistant Grade	2	2	2
Subtotal	48	48	48
Ungraded	117	117	117
Total permanent positions	673	673	673
Total positions, end of year	867	868	868
Total full-time equivalent (FTE) employment, end of year	828	828	828
Average ES level	4	4	4
Average ES salary	\$109,825	\$114,604	\$120,351
Average GS/GM grade	10.2	10.2	10.2
Average GS/GM salary	\$45,959	\$47,107	\$48,096

FUNCTION 050: NATIONAL DEFENSE

FUNCTION 050: NATIONAL DEFENSE (in millions of dollars)

	1997 est.	1998	2000	2001	2002
Budget Authority	000,000	000,000	000,000	000,000	000,000
Outlays	000,000	000,000	000,000	000,000	000,000

POLICY OBJECTIVES

Every American today — every farmer, every firefighter, steelworker, school teacher, hardware shop owner, and every person else who calls America home — shares a blessing won by this Nation's strength and stature: freedom from the fear that any foreign aggressor could threaten America's security.

Not so long ago, this claim could not have been made. Many Americans today can still recall when Soviet missiles aimed at Miami, families built bomb shelters in their homes, and school children were taught how to crawl under their desks during a nuclear attack. We have lived under this cloud for nearly 3 decades.

The United States won the Cold War because — especially during the Reagan and Bush administrations — it made the needed investments, in funds and conviction, to defend its freedom and security.

Even at the end of the Cold War greatly reduced the danger of a nuclear holocaust, it did not eliminate the challenges and dangers of an unstable world. Indeed, the dissolution of the U.S. Soviet confrontation has unleashed the ambitions of radical and unstable regimes throughout the world. Many of these regimes are eagerly seeking nuclear, chemical, and biological weapons. Maintaining the security that America has earned is an ongoing task that is becoming only more complex as the millennium approaches.

The government's efforts to maintain national security are reflected in function 050. Funds in this function are provided to develop, maintain, and equip the military forces of the

United States, and to finance defense-related activities of the Department of Energy [DOE]. Major areas of funding include pay and benefits for military and civilian personnel; research, development, testing, and evaluation; procurement of weapons systems; military construction and family housing; and operations and maintenance of the defense establishment.

This budget resolution assumes \$268.2 billion in budget authority and \$266.0 billion in outlays for fiscal year 1998. Over the 5-year period from 1998 through 2002, the resolution assumes totals of \$1,379.7 billion in BA and \$1,343.9 billion in outlays. [PARTIAL] THESE ARE FUNCTION TOTALS, I.E. DISCRETIONARY AND MANDATORY; CONSULT WITH GARY IF HE WANTS THEM OTHERWISE WE WILL BE HAPPY TO MAKE THE CHANGES]

KEY POLICY ISSUES

DISCRETIONARY FUNDING

National security is an unforgiving task that requires a clear definition of America's global role, a resolve to use force when vital national interests are threatened, but also a clear-eyed determination not to squander military resources in areas of marginal interest.

During the 104th Congress, there was broad support for correcting a persistent underfunding of defense. Budget plans reflect the consensus between Congress and the President to increase defense resources so as to address many of the shortfalls in modernization, readiness, and quality of life. The plan would add approximately \$100 billion in budget authority to national defense over the next 5 years compared to the budget authority of the Fiscal Year 1997 Budget Resolution Conference Report. It should be emphasized, however, that increased funding alone is unlikely to solve the Pentagon's long-term imbalance between resources and commitments.

The Department of Defense is reaching a critical juncture in its long-range budgetary planning. Even with the additional resources made available in the balanced budget plan, the Department will still have difficulty in fully meeting the demands of the future security environment while remaining within expected budgets. Clearly, significant savings must be generated within DOD; in turn, those savings must be reallocated to high-priority modernization and readiness programs.

It is critical that this transfer from the administrative "tail" to the warfighting "tooth" be undertaken immediately. While the 104th Congress made some progress in legislating reductions in the acquisition workforce and the staff of the Office of the Secretary of

Defense, and in mandating outsourcing of some administrative functions, much more needs to be done. There are four principal areas where major reform needs to be undertaken:

- ▶ *Defense Acquisition:* The General Accounting Office has identified persistent problems in the Pentagon's weapons-buying system. These include the setting of overly ambitious requirements, unrealistic cost and schedule estimates, outdated and bureaucratically layered management practices, and the unwillingness of DOD to seriously examine cost and performance trade-offs. While comprehensive reform plans can be implemented, effective Congressional oversight in ensuring that reforms remain in place.
- ▶ *Inventory Management:* DOD has wasted billions of dollars on excess supplies. According to GAO, about half of DOD's \$70 billion in inventory — spare parts, clothing, medical supplies, and other items — is in excess to any planned warfighting requirement, obsolete, or otherwise unusable. Modern commercial inventory control practices can and should be implemented.
- ▶ *Infrastructure:* there is a chronic excess capacity problem at DOD facilities, which adds billions of dollars in overhead costs to the department's operations. For instance, there is a 35 percent excess capacity at DOD laboratories, and a 40 percent excess capacity at repair shops. Overhead costs for transportation services are estimated as being two to three times the basic cost of transportation.
- ▶ *Financial Management:* DOD continues to lack an integrated financial management system, leading to inefficiencies and accounting failures. As an example, the Department has been unable to match tens of billions of dollars worth of disbursements with various contracts. Only five of DOD's 249 primary financial systems conform to Federal accounting standards, leaving the Pentagon seriously vulnerable to fraud and abuse.

FUNCTION 150: INTERNATIONAL AFFAIRS

FUNCTION 150: INTERNATIONAL AFFAIRS (in millions of dollars)

	1997 est.	1998	2000	2001	2002
Budget Authority	000,000	000,000	000,000	000,000	000,000
Outlays	000,000	000,000	000,000	000,000	000,000

POLICY OBJECTIVES

The couple who run the neighborhood dry cleaning store probably has little time to evaluate how the Federal Government is pursuing international affairs. They probably has never received a loan from the Overseas Private Investment Corporation [OPIC] or the Export-Import Bank. They may not be aware that the United States contributes to the International Development Association [IDA]. They may or may not be aware of the growing efforts to reform the United Nations.

On the other hand, if they are the most Americans, they probably support humanitarian assistance. They are a generous people who historically have taken great pride in alleviating human suffering, whether from wars or from national disasters. Likewise, they might recall the Iranian hostage crisis or some aspects of the Persian Gulf war, and understand how important achieving peace in the Middle East is to the United States.

But as they go about their daily lives, the issues of world diplomacy and foreign investment probably seem remote from their immediate and tangible concerns of feeding and clothing their families. Nevertheless, these issues are important, because part of the money they earn is funneled by Washington to finance these activities. They deserve to know that they are funded wisely and consistent with their values.

This is especially true when one considers the breathtaking changes that are occurring throughout the world. Within the last decade, we have witnessed the end of the Cold War and the global trend toward greater reliance on markets and open trading systems. Increasingly, functions which used to be performed by governments or private monopolies,

such as power generation, are being provided more effectively by the private sector. Net private capital flows to developing countries that have undertaken economic reforms have expanded dramatically; and dramatic advances in information, communications, and transportation technology are strengthening the links between developed and developing countries, and leading to an integrated global economy. To illustrate how dramatic these changes are, one need only look to a quote from the December 29, 1991 issue of *The Washington Post*:

More than any government program, more than any aid program of any international bank, the rapid spread of free trade, free markets, and investment across borders by private companies and individual investors—a phenomenon economists are calling ‘globalization’—is proving to be an effective weapon against poverty in many nations around the world and, in some places, arguably the most effective anti-poverty measure ever known.

The President and the Congress have been responsive to these changes. Recently, for example, it was announced that the Arms Control and Disarmament Agency and the United States Information Agency would be consolidated into the Department of State. Furthermore, the director of the United States Agency for International Development would come under the direct authority of the Secretary of State and some of its functions would be consolidated within the Department. The Committee believes that these changes will result in significant savings.

The Budget Committee is concerned, however, about the fact that few developing countries have achieved sustained growth during the past several decades. The Committee encourages the reporting committee to investigate why more has not been accomplished.

President John F. Kennedy once challenged the American people to make the 1960's the "Decade of Development," the period when many less-developed nations would transition into self-sustained growth. He envisioned an effort that would help "launch the economies of the newly developing countries 'into orbit' — bringing them to a stage of self-sustained growth where extraordinary outside assistance is not required." In his 1961 Foreign Aid Message, he stated, "It is essential that the developing nations set for themselves sensible targets. These targets be based on balanced programs which use their own resources to the maximum... The first requirement is that each recipient government seriously undertake to the best of its ability on its own those efforts of resource mobilization, self-help, and internal reform... which its own development requires and which would increase its capacity to absorb external capital productively." In his April 2, 1963 message to the Congress, he stated that foreign assistance should ultimately "achieve a reduction and ultimate elimination of U.S. assistance by enabling nations to stand on their own as rapidly as possible. Both this nation and the countries we help have a stake in their reaching the point

of self-sustaining growth—the point where they no longer require external aid to maintain their independence.”

Unfortunately, this has not occurred. The Committee recommends that the authorizing committees study why it has not occurred.

MAJOR POLICY ASSUMPTIONS

DISCRETIONARY SPENDING

In this area of the budget, funds are provided to finance the foreign affairs establishment, including embassies and other diplomatic missions abroad; humanitarian assistance; foreign aid in less developed countries; international security assistance; contributions to the international financial institutions; foreign information and exchange activities; Export-Import Bank activities; and refugee assistance. The departments and agencies in this function include the Department of State, the Department of the Treasury, the Agency for International Development, the United States Information Agency, and the Export-Import Bank.

The budget resolution assumes that budget authority for discretionary programs will be \$ _____ billion in 1998 and total \$ _____ over the next 5 years. Likewise, outlays are estimated at \$ _____ and \$ _____ over the next 5 years.

It is assumed that funds to support humanitarian assistance and the Camp David Peace Agreement will be unaffected.

MANDATORY SPENDING

No changes are envisioned concerning mandatory programs.

FUNCTION 250: GENERAL SCIENCE, SPACE, AND TECHNOLOGY

FUNCTION 250: GENERAL SCIENCE, SPACE, AND TECHNOLOGY
(in millions of dollars)

	1997 est.	1998	2000	2001	2002
Budget Authority	000,000	000,000	000,000	000,000	000,000
Outlays	000,000	000,000	000,000	000,000	000,000

POLICY OBJECTIVES

The New York City taxi driver who wears eyeglasses can now buy plastic lenses that are both light and shatterproof — a kind of lens that was not available as recently as 20 years ago. These lenses are a descendant of the American space program, which had to develop this kind of plastic for the visors on astronaut helmets.

This is just one of hundreds of benefits Americans have enjoyed as a result of scientific and technological research. The most productive, efficient, and creative of these research efforts come from the varied and multiple institutions of America's private sector — from pharmaceuticals to the makers of better running shoes — precisely because they are driven by market forces. It's an old (but sadly accurate) satire that the government will never build a better mousetrap because the product would not survive the government's volumes of specifications and army of bureaucrats — and besides it would not pass inspection by the Occupational Safety and Health Administration.

Still, the Federal Government can advance these efforts — but only by recognizing its appropriate role and the most efficient use of taxpayers' dollars. This government role is one of the issues addressed in function 250.

For the technological revolution to continue, a strong fundamental science base is needed. Therefore, basic research should be re-emphasized. Much applied research can and should be market-driven and conducted by the private sector. Nevertheless, in certain areas, such as fundamental scientific research and collective risk endeavors, the government does play an important role. Space exploration is one example, and agencies such as the National

Aeronautics and Space Administration have been able to make significant strides with public funds. Yet even in space, the private sector should play a greater role as risk becomes better understood and more controllable. Finding ways to involve industries in space activities should be a major priority.

Funds in this function are provided for space flight and research, general science, and basic research not specifically covered by other functional areas. The programs in this function are the primary source of funding for the physical and engineering sciences. The budgets for the National Science Foundation [NSF], the high energy and particle physics research programs of the Department of Energy [DOE], and the National Aeronautics and Space Administration [NASA] — except for its air transportation programs which are included in Function 400 — are within this category.

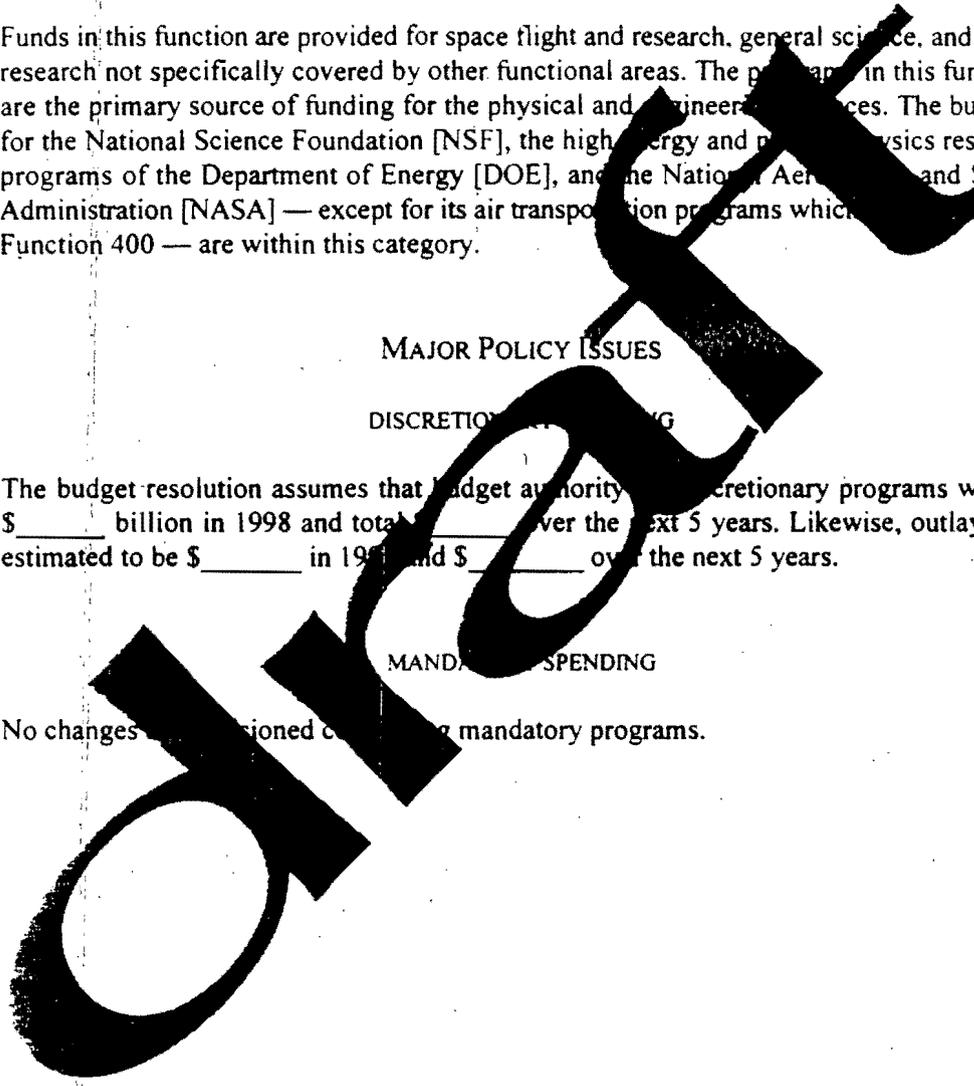
MAJOR POLICY ISSUES

DISCRETIONARY SPENDING

The budget resolution assumes that budget authority for discretionary programs will be \$ _____ billion in 1998 and total _____ over the next 5 years. Likewise, outlays are estimated to be \$ _____ in 1998 and \$ _____ over the next 5 years.

MANDATORY SPENDING

No changes are proposed concerning mandatory programs.



FUNCTION 270: ENERGY

FUNCTION 270: ENERGY (in millions of dollars)

	1997 est.	1998	2000	2001	2002
Budget Authority	000,000	000,000	000,000	000,000	000,000
Outlays	000,000	000,000	000,000	000,000	000,000

POLICY OBJECTIVES

In 1974, American drivers waited in lines a dozen vehicles long to buy gasoline, because fuel was in short supply. A few years later they watched President Carter on television, wearing a cardigan sweater, urging them to turn down their thermostats to conserve heating oil.

The shortages were supposedly caused from a shortage of natural energy resources. They led to the creation of the Department of Energy to address the "crisis." But in fact, the shortages were the direct result of federal imposed controls and regulations. Federal oil and price allocation controls were illegal — literally a Federal offense — to move gasoline around the country when supplies grew tight. In other words, the Department of Energy, a government solution, was created to "fix" a government-generated problem. Gasoline lines ended after the controls were dismantled in 1981.

Likewise, natural gas was in short supply because price controls discouraged production from 1954 through the 1980's. Price controls encourage consumption and discourage production. These shortages also disappeared as price controls were phased out. [INSERT SOMETHING ABOUT THE PRICE OF GASOLINE TODAY AS COMPARED WITH 1980?]

These are examples of how misguided government strategies impair the Nation's ability to provide for its energy needs. It is one of the major considerations that should apply throughout function 250, which contains all Federal energy and energy-related programs, including energy supply; energy conservation; emergency energy preparedness; and energy

information, policy, and regulation. The function includes the civilian activities in the Department of Energy, rural electrification and telecommunications loans within the Department of Agriculture, the power programs of the Tennessee Valley Authority [TVA], and the Nuclear Regulatory Commission [NRC].

MAJOR POLICY ISSUES

DISCRETIONARY SPENDING

The budget resolution assumes that budget authority for discretionary purposes will be \$ _____ billion in 1998 and total \$ _____ over the next 5 years. Likewise, outlays are estimated to be \$ _____ in 1998 and \$ _____ over the next 5 years.

In the aggregate, this level of spending supports the overall spending level assumed in the budget agreement. To support these levels may require either modifications to, or reductions in, other programs in the President's budget. Ultimately, these decisions will be the responsibility of the House and Senate Committees on Appropriations.

MANDATORY SPENDING

Consistent with the budget agreement, it is noted that the Department of Energy [DOE] will be authorized to lease excess storage capacity in the Strategic Petroleum Reserve.

FUNCTION 300: NATURAL RESOURCES AND ENVIRONMENT

FUNCTION 300: NATURAL RESOURCES AND ENVIRONMENT (in millions of dollars)

	1997 est.	1998	2000	2001	2002
Budget Authority	000.000	000.000	000.000	000.000	000.000
Outlays	000.000	000.000	000.000	000.000	000.000

POLICY OBJECTIVES

When a family of four travels to Rocky National Park in Colorado for a vacation, they can breathe clean air and swim in clear streams. But hiking trails are crowded and some camp sites are closed. It is a problem at parks across the country today.

It falls in the realm of budget function 300. Programs in this function is designed to develop, manage, and maintain the nation's natural resources, and protect public health by ensuring a clean environment. Funds are provided for water resources, conservation and land management, natural resources, pollution control and abatement, and other natural resources. The major departments and agencies in this function include the Department of the Interior; the Department of Agriculture; the Army Corps of Engineers; the Environmental Protection Agency; and the National Oceanic and Atmospheric Administration [NOAA], within the Department of Commerce.

MAJOR POLICY ISSUES

DISCRETIONARY SPENDING

The budget resolution assumes that budget authority for discretionary programs will be \$ _____ billion in 1998 and total \$ _____ over the next 5 years. Likewise, outlays are estimated to be \$ _____ in 1998 and \$ _____ over the next 5 years.

In the aggregate, these figures support the overall spending levels assumed in the budget agreement. The 1998 levels are assumed at the President's request. To support the spending levels for 1999 through 2002 may require reductions in other programs in the President's budget. Ultimately, these decisions will be the responsibility of the House and Senate Committees on Appropriations.

MANDATORY SPENDING

No changes are envisioned concerning mandatory programs.

DRAFT

FUNCTION 350: AGRICULTURE

FUNCTION 350: AGRICULTURE (in millions of dollars)

	1997 est.	1998	2000	2001	2002
Budget Authority	000,000	000,000	000,000	000,000	000,000
Outlays	000,000	000,000	000,000	000,000	000,000

POLICY OBJECTIVES

For more than 60 years, Washington had tried to centrally plan U.S. agriculture with an enormous system of commodity supply and price controls, acreage allotments, production quotas, restrictions on imports and exports, and export subsidies. These outdated and cumbersome policies were preventing U.S. farmers from taking full advantage of opportunities in the world market.

Last year, the President and Congress selected a new direction for American agriculture that gave farmers the freedom to respond to market demand, not government programs or bureaucrats thought farmers ought to be planting. Farmers asked for more flexibility and less paperwork, and a better opportunity to earn a living from the marketplace. The new direction chosen will accomplish these goals and make U.S. farmers profitable and competitive in the 21st century.

Several agricultural programs are intended to insure a plentiful, high quality supply of food and fiber and to help stabilize farm income. Programs in this function include direct assistance loans to food and fiber producers, export assistance, market information and inspection services, and agricultural research.

MAJOR POLICY ISSUES

DISCRETIONARY SPENDING

The budget resolution assumes that budget authority for discretionary programs will be \$ _____ billion in 1998 and total \$ _____ over the next 5 years. Likewise, outlays are estimated to be \$ _____ in 1998 and \$ _____ over the next 5 years.

MANDATORY SPENDING

No changes are envisioned concerning mandatory programs.

DRAFT

FUNCTION 370: COMMERCE AND HOUSING CREDIT

FUNCTION 370: COMMERCE AND HOUSING CREDIT (in millions of dollars)

	1997 est.	1998	2000	2001	2002
Budget Authority	000,000	000,000	000,000	000,000	000,000
Outlays	000,000	000,000	000,000	000,000	000,000

POLICY OBJECTIVES

Function 370 includes certain discretionary housing programs, such as subsidies for single and multifamily housing in rural areas, and mortgage insurance provided by the Federal Housing Administration; net spending by the Postal Service; discretionary funding for commerce programs, such as international trade and exports, science and technology, the periodic census, and small business; and mandatory spending for deposit insurance activities related to thrifts, and unions.

The budget resource assumes _____ billion in budget authority [BA] and _____ billion in outlays in fiscal year 1998, and _____ billion in BA and _____ billion in outlays over 5 years.

MAJOR POLICY ISSUES

MANDATORY SPENDING

The Copyright Office, part of the Library of Congress, is responsible for registering and recording copyright claims, assignments, and renewals, for supplying copyright information to the public, for collecting and accounting for copyright fees, and for publishing complete and indexed catalogs for each class of copyright entries. The Copyright Office currently charges a fee to register a copyright, but receipts from the fee do not cover the direct cost of administering copyright registration and related activities. In 1997, the total cost to

operate the office is estimated to be \$33 million. The costs not covered by the fee — estimated to be \$11 million in 1997 — are now covered by annual appropriations.

DISCRETIONARY SPENDING

For discretionary spending, the budget resolution assumes _____ billion in budget authority [BA] and _____ billion in outlays in fiscal year 1998 _____ billion in BA and _____ billion in outlays over 5 years.

DRAFT

FUNCTION 400: TRANSPORTATION

FUNCTION 400: TRANSPORTATION (in millions of dollars)

	1997 est.	1998	2000	2001	2002
Budget Authority	000,000	000,000	000,000	000,000	000,000
Outlays	000,000	000,000	000,000	000,000	000,000

This function includes federal funding for highway, air, railroad, aviation, maritime, and Coast Guard programs.

POLICY PRIORITIES

American history is, to a great extent, the story of the successive development of innovative transportation systems that have opened up our nation to settlement and development. Because of the importance of transportation to our nation's economy, the level of investment in our transportation system is critical. Although historically most transportation financing is allocated at the local level, Federal, state, local and private resources have all been instrumental in the establishment and maintenance of our transportation infrastructure. The Federal Government has traditionally ensured the creation or maintenance of transportation systems of a national nature: such as the transcontinental railroad; maritime and aviation safety; and the interstate highway system. To facilitate the repair and maintenance of national highways, the budget resolution assumes that the tax revenue collected in the Highway Trust Fund will be spent for those purposes.

But while the federal role was instrumental to the creation of the national interstate system, today it has often become an obstacle to improved transportation services. As much as 25 percent of the tax revenue dedicated to the Highway Trust Fund is spent on maintaining the federal bureaucracy, and complying with burdensome federal mandates and regulations. Much federal highway spending is misdirected toward programs with limited or no relationship to transportation, such as bicycle, pedestrian and horse paths, landscaping, tourism brochures, and commercial development, including the subsidizing of a saloon.

In aviation, the federal role of ensuring the safety of the skies has expanded to include

programs that assist in building runways, taxiways, and terminals. But costly federal mandates and restrictions limit how airports raise and spend their revenues, despite the fact that federal funding is only a fraction of most airport budgets. Indeed, the nature of the Federal Aviation Administration's Airport Improvement Program, combined with federal restrictions on other sources of potential revenue, prevents many airports from meeting their development needs. In 1970, because of the inability of airports to extend their runways, many of which were mandated by federal law to maintain unprofitable lines, to compete against the private automobile and modern jet transportation, the nationalization of passenger rail was undertaken as a 2-year, federally-assisted experiment. After twenty-seven years, the experiment has delivered a near bankrupt corporation, Amtrak, running on a dilapidated infrastructure and desperate for federal aid every day. In fact, despite over \$19 billion in federal assistance, Amtrak has cumulatively lost \$1.3 billion (\$764 million in net losses during fiscal year 1996 alone), a level of losses more than twice as much per year as trains were losing under private ownership.

The GAO testified in March 1997 that "Amtrak's financial crisis, despite the fact that its financial performance (as measured by net losses) improved over the last two years." Furthermore, "...it is likely Amtrak will continue to require substantial financial support--both operating and capital--well into the future." As a government-owned corporation, Amtrak finds it difficult to conduct the long-range planning and organizational changes that a private company could and would take to maintain a competitive and profitable service, such as modernizing capital equipment and closing unprofitable routes. Amtrak's statutory monopoly on passenger rail also prevents the establishment of private competitors, which must remain in Amtrak's portfolio to operate. For instance, federal aid has brought strings and conditions that have increased costs. This has necessitated more federal aid, and has led to a heavy dependence on the federal government — and needs now far exceed federal resources for very modern transportation. The expansion of federal involvement in transportation occurred over decades, and it cannot and should not be reversed overnight. The proposals that follow are not policy directives to the committee of jurisdiction, but they do affect the spending assumptions in this resolution. But the policy directions outlined here merit further investigation, hearings, and deliberation for the long-term health of the national transportation network.

The budget resolution's priority for Function 400 is to introduce ideas that would harness the ingenuity of governors, state legislatures and local governments, the entrepreneurialism of private industry, and the strength of the financial markets to enhance the nation's transportation network.

Programs in this function fall under the authority of the authorizing and appropriating committees with jurisdiction over the programs. No savings targets have been assigned to the following provisions, and the committees of jurisdiction retain the authority to pursue alternative specific policies from those reflected in this report as long as they remain within

the spending limitations of the budget resolution.

STUDY OF PRIVATIZING THE OPERATIONS OF THE AIR TRAFFIC CONTROL SYSTEM

The Problem. The Air Traffic Control system is obsolete, and according to a March 1997 GAO report, "since the early 1980s, FAA's modernization efforts have produced lengthy schedule delays and substantial cost overruns." But while the FAA has taken some steps to solve these problems, the risk of cost overruns and program delays continues to threaten the modernization program. The FAA has also been criticized for general mismanagement. The antiquated technology and mismanagement are at least partly responsible for the airport congestion and delays that cost travelers, industry, and the government more than \$6 billion annually. In the next few years, as many as 100 million passengers will experience serious congestion affecting 80 percent of air travelers. Clearly, the current system will not meet the nation's air travel needs of the next century.

Proposed Solution for Further Study. One alternative would be to transfer the operations of the air traffic control system to a privately managed corporation while retaining a federal role in setting safety standards, certification, and regulation. Privatizing ATC operations would remove the bureaucratic impediments to modernization and enable the corporation to raise private capital for modernization. It would end the current conflict of interest resulting from the same organization running air traffic control and monitoring its safety. A privately managed air traffic control corporation could also provide incentives for experienced air traffic controllers by implementing a flexible and fair pay scale. Finally, a corporation could function as a competitive enterprise, responsive to its users and using best business practices.

STUDY OF PRIVATIZING THE OPERATIONS OF THE ST. LAWRENCE SEAWAY DEVELOPMENT CORPORATION

The Problem. The St. Lawrence Seaway was opened in 1959 and operated by two separate national governments, the U.S. St. Lawrence Seaway Development Corporation and Canada's St. Lawrence Seaway Authority. The Canadian system of 13 canals is funded through the collection of tolls, whereas the two canals of the U.S. system are funded by revenues generated by the Harbor Maintenance Fee. However, the Harbor Maintenance Fee may be ruled unconstitutional by federal courts, and may also be challenged by the World Trade Organization. Thus, a new financing scheme needs to be identified.

Proposed Solution for Further Study. The Canadian government has proposed legislation which would establish a bi-national not-for-profit corporation to take over operation of the Seaway. The corporation would be composed of Seaway users, who are the parties most interested in the successful management and operation of the system. This proposal would also return oversight of Great Lakes Pilotage to the Coast Guard.

FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT

FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT (in millions of dollars)

	1997 est.	1998	2000	2001	2002
Budget Authority	000,000	000,000	000,000	000,000	000,000
Outlays	000,000	000,000	000,000	000,000	000,000

POLICY OBJECTIVES

Two key issues related to this function warrant attention by the committees of jurisdiction. The first involves the longstanding inability of Washington to lift Native Americans out of poverty. The second involves the waste of money that results from the fragmented nature of federal programs. The Budget Committee urges that both be examined.

Function 450 includes programs that provide federal funding for economic and community development in urban and rural areas. It includes programs such as Community Development Block Grants, the Tennessee Valley Authority, the Appalachian Regional Commission and the Federal Emergency Management Agency.

MAJOR POLICY ISSUES

DISCRETIONARY SPENDING

The budget resolution assumes _____ billion in discretionary budget authority [BA] and _____ billion in outlays in fiscal year 1998. Over 5 years, it assumes _____ in BA and _____ in outlays.

NATIVE AMERICANS

On July 11, 1994, *Investor's Business Daily* carried an article titled: "Govt.'s Destructive Benevolence." The article stated that "economists who study Indian development say that the most important cause of Indian poverty is a century of attempting to centrally plan reservations' economic development from Washington without regard to local conditions or tribal history and customs * * * ." In previous years, this view has been echoed by the Committee on Resources, which noted:

The enormity of the social, political, and economic problems which confront today's collective Native Americans is matched only by the number of confusing and antiquated Federal statutes which guide the [Bureau of Indian Affairs] in performing its duties.

The Resources Committee endorsed efforts to:

* * * shift Federal funds directly to tribes through the Self-Governance Program (Public Law 103-413) and the Self-Determination and Education Assistance Act (Public Law 93-638).

The Resources Committee also noted the continued dissatisfaction on the part of many Native Americans with the health care services provided by the Indian Health Service [IHS]."

The Budget Resolution encourages the Resources Committee to revisit proposals to accelerate the transition toward self-determination for Native Americans. It encourages the Resources Committee to consider block grants. The budget resolution assumes that the reinvented Bureau of Indian Affairs [BIA] would provide block grants, rather than engaging in the direct provision of services or the direct supervision of tribal activities. It would incorporate construction financing in the block grant. To address the recurrent health care problems endemic to Native Americans, the budget resolution assumes an extension of the Self-Governance Program to include the Indian Health Service [IHS] in fiscal year 2000. Finally, this proposal assumes that the other major programs for Native Americans will be incorporated into the block grant when those programs have achieved self-determination (in accordance with the Self-Determination Act of 1975, that they may directly receive funds.)

PROGRAM FRAGMENTATION

In 1995, the General Accounting Office [GAO] reported that "[a]ppropriate program consolidation pursuing a broad strategy for economic development in rural areas provides one alternative to the current system of multiple, narrowly focused programs. Program

consolidation would provide the opportunity to eliminate overlapping or duplicative activities, thereby facilitating improvements in the effectiveness and efficiency of overall federal assistance to rural areas." More recently, GAO stated: "[W]e identified 8 agencies that are administering 17 different programs assisting rural areas in constructing, expanding, or repairing water and wastewater facilities. These overlapping programs often delayed rural construction projects because of difference in the federal agencies' timetables for grants and loans. Also, the programs experienced increased project costs because rural governments had to participate in several essentially similar federal grants and loan programs with differing requirements and processes. We found that, because of the number and complexity of programs available, many rural areas needed to use a consultant to help identify and administer federal grants and loans."

DRAFT

FUNCTION 500: EDUCATION, TRAINING, EMPLOYMENT AND SOCIAL SERVICES

FUNCTION 500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES (in millions of dollars)

	1997 est.	1998	2000	2001	2002
Budget Authority	000,000	000,000	000,000	000,000	000,000
Outlays	000,000	000,000	000,000	000,000	000,000

POLICY OBJECTIVE

Two teachers in Bradenton, Florida — Monica Corbett and Janet Scarboro — were concerned about declining reading scores in a local elementary school. They developed an innovative local solution — a program titled “The Power Hour.” Ms. Corbett and Ms. Scarboro invited to the elementary school students from nearby Southeast High School bused to Oneco Elementary for an hour once a week. There each high schooler was assigned to tutor a student to improve his or her reading skills. The program has been a success for both the younger students and their high school tutors: The younger children have had instant role models they can relate to and their scores have improved markedly; the high school students have realized the impact they can make as volunteers, and are increasing their involvement in other areas. Some are contemplating social work as a career. The successful “Power Hour” is now being replicated through other schools systems along Florida’s Gulf Coast.

It is only one example of the difference a committed group of teachers and volunteers can make in improving academic achievement. To the extent that the Federal Government plays a role in education, it should seek to enhance and reinforce such local efforts.

The Department of Education has admitted as much. In a recent report titled, *Prospects: Final Report* — concerning the Chapter 1 program for disadvantaged students — the Department listed several key elements for improving student performance: 1) high parental expectations for children, 2) active parental participation in schools, 3) emphasis on writing skills and advanced math, and, 4) orderly, disciplined schools environments. The study also

noted that high-achieving, high-poverty schools received stronger support from the local community, parents, and teachers than average high-poverty schools. Clearly to reform education we need to empower the people that can really make a difference in children's lives — parents, teachers, principals, and local communities.

This budget resolution sustains Federal support for education and provides funding to help meet the education priorities of Congress and the President. It provides _____ billion in budget authority [BA] and _____ billion in outlays in fiscal year 1998, and _____ billion in BA and _____ in outlays over 5 years. Funding for 500 increases to elementary and secondary education, college student loans and grants, job training, health care, aid to the disabled, and Head Start.

But the Budget Committee also urges the Congress and the Administration to consider the Department of Education's counsel, as indicated above, regarding education spending priorities. Policymakers should keep in mind that the leadership and commitment of local people — especially parents — is indispensable to improving education in America.

MAJOR POLICY ISSUES

MANDATORY SPENDING

The largest mandatory program in Fund 1 is the student loan program. The budget resolution makes savings in student loans by reducing excess guaranty reserves in the guaranteed loan program and reducing administrative costs in the direct loan program. Over 5 years, the savings will come equally from the direct and guaranteed loan programs. Students will not be impacted by these changes. The same number of loans will be available to students at no additional cost to the students or their parents. The volume of student loans will grow from \$27 billion in 1997 to \$36 billion in 2002. The number of student loans will increase from 7,463 to 8,605.

The specific policy assumptions are as follows:

- ▶ *Reduce Section 458 (Direct Loan Administrative Account).* The plan saves \$603 million in outlays from the administration of the Direct Loan program. The proposal does not cap the direct lending, but assumes savings because the program has grown more slowly than projected. The plan assumes the treatment of the Administrative Cost Allowance [ACA] will remain the same.
- ▶ *Eliminate \$10 Direct Loan Fee.* The plan eliminates the \$10-per-loan subsidy to schools and alternate originators participating in the direct loan program.

- Reclaim Excess Guaranty Agency Reserves.* This is a modified version of the President's proposal to recall excess guaranty agency reserves. This proposal would recall \$1 billion and maintain 98 percent reinsurance levels for guaranty agencies. The administration's proposal would recall \$2.5 billion and have the Federal Government pay 100 percent of all default claims through direct Federal payments.

College is taking a bigger and bigger share of family income. In 1980, the average cost of attending a private-college absorbed 25 percent of median household income. In 1993, that number had grown to 45 percent of family income. While overall inflation has grown by 80 percent since 1980, tuition has grown by 253 percent. The reasons why college costs have grown at triple the rate of inflation, and how schools can put their costs to make college more affordable, need to be examined.

Meanwhile, the budget resolution also assumes tax relief for parents sending their children to college. This tax relief is discussed in the section on revenue.

DISCRETIONARY SPENDING

For fiscal year 1998, this budget resolution assumes _____ billion in budget authority [BA] and _____ in outlays. Over 5 years, it assumes _____ billion in BA and _____ billion in outlays. It is anticipated that these funding levels will be sufficient to meet the education priorities of Congress and the President. Among these priorities are

JOB TRAINING

The Budget Committee urges Congress and the administration to pursue reforms in Federal job training programs. The General Accounting Office has identified a bureaucratic tangle of 163 job training programs with funding of about \$20 billion a year. Because current training programs are often targeted toward very specific populations, States have had limited flexibility to tailor job training programs to their particular needs. Congress and the administration should explore consolidating these overlapping training programs into block grants to the States.

These block grants would give States much greater flexibility to target their greatest training needs, whether it is helping welfare recipients look for jobs or teaching new skills to displaced factory workers or tutoring high school dropouts working on their General Educational Developments [GED] credentials.

Although a House and Senate agreement to consolidate job training programs died in the

last Congress, the Committee on Education and the Workforce recently approved a new bill, the Employment, Training and Literacy Enhancement Act of 1997. This bill will consolidate more than 60 existing employment, training and literacy programs into three block grants to the States. States and localities, not the Department of Labor, will have maximum authority to design and operate employment training programs. The Budget Committee supports the efforts of the Committee on Education to bring common sense to Federal job training programs.

Draft

FUNCTION 550: HEALTH

FUNCTION 550: HEALTH (in millions of dollars)

	1997 est.	1998	2000	2001	2002
Budget Authority	000,000	000,000	000,000	000,000	000,000
Outlays	000,000	000,000	000,000	000,000	000,000

POLICY OBJECTIVE

Today, in most States, parents of children who are not insured worry about what they will do if any of their kids get sick. How will medical bills get paid? Even those who have Medicaid coverage for their children worry that if their incomes rise only a modest amount they will lose their Medicaid coverage.

In some States, however, Governors and State Legislatures have expanded eligibility to include traditionally excluded populations. Such Medicaid flexibility is now available only through a burdensome, grass-roots process of Medicaid waivers. The benefits of Medicaid flexibility should be more widely available. Allow more parents to have the piece of mind currently possible only in a few of the Nation's States — and to get the most out of every Medicaid dollar spent.

These are the key issues in Medicaid reform: increasing State flexibility to make Medicaid more responsive to local needs, including coverage of the uninsured; and providing States with the tools necessary to improve the efficiency of Medicaid health care delivery, thereby controlling costs.

Under the Budget Committee's Medicaid reform plan, Federal Medicaid spending (outlays plus budget authority) would be \$105.1 billion in fiscal year 1998, compared with projected fiscal year 1997 spending of \$98.6 billion. Over the next 5 years Federal Medicaid outlays would total \$602.4 billion, compared with \$438 billion over the last 5 years. Federal Medicaid outlays would continue to grow, but at a 7.0 percent annual rate of growth instead of the currently projected 7.8 percent rate.

Medicaid is the Nation's major program to pay for medical and long-term care services for low-income people. It generally covers four broad categories of people: poor disabled people, poor elderly people, poor and near poor children and pregnant women, and certain other adults in low-income families. Because of the individual entitlement provided to these people, Medicaid is an open-ended entitlement, with the Federal Government matching State expenditures at a rate between 50 percent and 83 percent depending on a State's per capita income relative to the national average. It is the major component of this budget function, which also reflects funding for other health care services, health research and development, and consumer and occupational health and safety.

The Nation's 50 Governors are united in seeking greater flexibility from the Federal Government in running their Medicaid programs. In February, the National Governors' Association issued a policy statement that said in part: "Currently, States must produce and defend waiver requests even if other states have already received approval to implement similar waivers. Obtaining redundant Federal approvals is an inefficient use of resources at both the State and Federal level." These resources would be better used in actually paying for health care than in inefficient and redundant paperwork.

Governors and State Medicaid directors have testified that if given greater flexibility in running their Medicaid programs, they could cover more people at lower cost. Their views are supported by demonstrations currently being conducted under Medicaid waivers in several States. For example, Tennessee has the highest percentage of people covered by health insurance of any State, a result of its TennCare program. This was achieved through the use of managed care, payment limits, and cost sharing for those not traditionally eligible for Medicaid. Another example is Arizona, which has held Medicaid costs down through the use of managed care in both acute care and in providing long-term (nursing home) care for residents.

Medicaid has become a major Federal outlay and put pressure on Federal budget deficits. Between 1990 and 1996, Federal Medicaid outlays more than doubled, growing from \$41 billion to \$92 billion. Growth was especially rapid between 1990 and 1993, averaging nearly 23 percent a year. In contrast, in 1996 Federal Medicaid outlays grew by only 3.3 percent.

Thus, there is an critical need for Medicaid reform to increase State flexibility to make Medicaid more responsive to local needs, including coverage of the uninsured; and provide States with the tools necessary to improve the efficiency of Medicaid health care delivery and control costs. The Medicaid portions of the balanced budget plan responds to these needs.

The plan also incorporates provisions to expand health coverage for children in vulnerable populations.

MAJOR POLICY ASSUMPTIONS

MANDATORY SPENDING

Under the Medicaid reform assumed in the budget resolution, Medicaid payments would be \$105.1 billion in fiscal year 1998 and \$602.4 billion over 5 years. There would be no per-capita cap on Federal Medicaid spending, which had been proposed by the Administration but strenuously opposed by Governors. The plan calls for \$16 billion in Federal Medicaid savings over 5 years.

Key components of the Medicaid reform assumptions are the following:

- Disproportionate Share Hospital Payments.* Medicaid disproportionate share hospital [DSH] payments are additional payment adjustments to hospitals serving a relatively large (disproportionate) volume of Medicaid or low-income patients. In fiscal year 1997, estimated Medicaid DSH payments are \$9.8 billion. DSH payments vary greatly across the States, with some spending more than \$1,000 per low-income resident, and others spending nothing. This program will reduce and retarget DSH spending.

As low-income children aged 15 to 18 are phased into Medicaid coverage over the next 3 years and as children's health is expanded through other initiatives in this budget, there will be less need for DSH payments. Further, when the DSH program was established, hospital payments were relatively low. Today, Medicaid hospital payments are significantly below private sector payment levels in many instances.

- Medicaid Flexibility.* The plan incorporates an unprecedented increase in State Medicaid flexibility. The Nation's 50 Governors are united in seeking greater flexibility from the Federal Government in running their Medicaid programs. In February 1997, the National Governors' Association issued a policy statement that said in part:

Currently each state must produce and defend waiver requests even if other states have already received approval to implement similar waivers. Obtaining redundant Federal approval is an inefficient use of resources at both the State and Federal level.

These resources would be better used in actually paying for health care than in inefficient and redundant paper shuffling.

Governors and State Medicaid directors have testified that if given greater flexibility in running their Medicaid programs, they could cover more people at lower cost.

Their views are supported by demonstrations currently being conducted under Medicaid waivers in several States. For example, Tennessee has the highest percentage of people covered by health insurance of any State as a result of its TennCare program. This was achieved through the use of managed care, provider payment limitations, and cost sharing for those not traditionally eligible for Medicaid. Another example is Arizona, which has held Medicaid costs down through the use of managed care in both acute care and in providing long-term (nursing home) care for its residents.

Under the plan, States would have unprecedented flexibility in administering Medicaid. Key elements include the following:

- Increasing flexibility in provider payment by repealing the Boren Amendment and eliminating cost-based reimbursement for health clinics.
- Increasing flexibility in program eligibility by allowing budget neutral eligibility simplification and enrollment expansions.
- Eliminating unnecessary administrative requirements.
- Increasing flexibility regarding managed care.
- Increasing flexibility regarding long-term care.

No Per-Capita Limitation. The reforms discussed above will allow the President's Government to control Medicaid costs without the need to impose arbitrarily higher per capita caps. Costs appear to be under control already as evidenced by the 3.3 percent growth in Federal outlay during 1996. All 50 States to increase Medicaid flexibility, as requested by the Governors, while rejecting per capita caps, a proposal unanimously opposed by the Governors, is the better alternative.

Children's Health Care Initiatives. Under the balanced budget plan, Federal financial support for children's health insurance will be increased. One component will give States the option to provide 12-months continuous eligibility for children qualifying for Medicaid and to restore Medicaid coverage for disabled children losing Supplemental Security Income [SSI] because of the new, more strict definition of childhood eligibility. Over the next 5 years, a total of \$16 billion will be spent to increase children's health insurance coverage.

DISCRETIONARY SPENDING

In coastal South Carolina, Dr. Jack McConnell, seeing the unmet need for adequate health care among local residents, has established a free clinic to care for needy neighbors. The clinic — called the Volunteers in Medicine Clinic — is staffed by resident doctors, nurses, dentists, and other professionals, and had 8,500 patient visits in 1996. Each patient was treated with dignity and compassion by people who were providing care solely because they wanted to. During the same period, the local hospital emergency room experienced a 35-percent drop in non-paying patient visits, resulting in estimated savings of \$600,000. The Volunteers in Medicine Institute has received inquiries from interested communities, and clinics are currently being established in several States. Dr. McConnell is developing a manual to guide communities and providers in how to set up free clinics.

Congress should continue to encourage such innovative approaches in States and local communities, through regulatory relief and other incentives.

Meanwhile, the budget resolution provides _____ priority and _____ in outlays in fiscal year 1998 for the Federal Government's discretionary health programs.

Health care for children, including preventive services, immunizations, well-child care, nutrition, primary care services, and health services for children with special needs are some of the services provided through Function 40. The fiscal year 1997 appropriation provided \$2.3 billion (not including \$24 million for mandatory vaccine purchases) in funding for health centers, emergency services, Alcohol Programs, preventive services, immunizations, lead poisoning prevention, and mental health services — programs targeted directly to children and substantially for low-income children — in ongoing support for the health of the nation's children.

Approximately _____ percent of the individuals receiving services at health centers are children. Federal discretionary support for health centers is \$802 million for fiscal year 1997, which does not include an estimated \$820 million in Medicaid funding, and State and local support. Health centers are located in rural and urban areas and are targeted to poor and near poor individuals. Sixty-six percent of the population served are at or below the poverty level, and another 20 percent are between 100 and 200 percent of poverty. Forty percent are uninsured, and 2 million currently uninsured children are served through health centers.

FUNCTION 570: MEDICARE

FUNCTION 570: MEDICARE (in millions of dollars)

	1997 est.	1998	1999	2001	2002
Budget Authority	000,000	000,000	000,000	000,000	000,000
Outlays	000,000	000,000	000,000	000,000	000,000

POLICY OBJECTIVES

Consider the following scenario:

A Medicare beneficiary is rushed to the hospital with a broken hip. After an initial examination in the emergency room, the doctor is told she needs surgery, but she may not check into the hospital until Medicare's Hospital Insurance Trust Fund has run out of funds and she is not paid in full by the hospital. She is told she must wait until Medicare has paid up before she can be admitted. She is given a palliative and sent home.

In as few as two years — by 2001 — this hypothetical case will be a reality facing any of the 40.5 million Medicare beneficiaries.

Medicare's financing, provider payment system, and benefits structure are fundamentally flawed, and the program will collapse. According to the 1997 Annual Report of the Board of Trustees of the Hospital Insurance Trust Fund, Medicare Part A began spending more than payroll tax income in 1992, and more than its total income in 1995. The fund receives 2.9 percent of the payroll income earned in the country. In 1996, the program outspended income by \$1.1 billion. To quote the Trustees: "The short-range financial status of the HI program is unsatisfactory."

Estimates by the Trustees using intermediate cost projections forecast bankruptcy will occur in 2001. According to high cost projections, the fund will be bankrupt in 2000. At that point, the fund will be unable to pay for Medicare hospital services. The fund is projected to lose \$4.1 billion per month in 2001, cumulating to a \$23.4 billion negative balance at the end of

the year. The Trustees recommend that "assets be maintained at a level at least equal to annual expenditures, to serve as an adequate contingency reserve in the event of adverse economic or other conditions." Medicare has already failed this test of financial solvency.

Medicare Part B Supplementary Medical Insurance, which pays for physician and outpatient medical services, is funded in part by beneficiary premiums and primarily by general tax revenues. The government's contribution was \$61.7 billion in 1996, and is projected to be \$85.4 billion by 2001. Under current law, the government's contribution as a percent of program costs will increase to over 80 percent by 2001.

It is important to emphasize that Medicare's financial problems are occurring 10 years *before* the first wave of baby boomers hits retirement. This problem is the subject of this budget function, which includes the Medicare Part A Hospital Insurance [HI] program, Part B Supplementary Medical Insurance [SMI] program, and premiums for non-qualified aged and disabled beneficiaries.

MAJOR POLICY ASSUMPTIONS

MANDATORY SPENDING

When the Medicare program was launched more than 25 years ago, it reflected a nationwide commitment that no senior citizen would be left without health coverage. This budget resolution reaffirms that commitment. The current resolution would increase spending for each Medicare beneficiary from \$5,486 in 1997 to \$6,910 in 2002. Total program outlays would increase from \$160 billion in 1997 to \$280 billion in 2002. This total spending increase is more than covered by the current 1.4 percent annual increase in the number of Medicare recipients. Total outlays for Medicare benefits will be \$1.25 trillion over the next 10 years.

But to assure that the original promise can be kept, Medicare must be reformed. Congress' plan must include fundamental reform of the Medicare program, improving health coverage today and making the first steps in preparing the program for future beneficiaries. The plan should allow beneficiaries to keep their current Medicare coverage while offering new alternatives for receiving health care — many of which can substantially lower seniors' current out-of-pocket health care expenditures. Medicare beneficiaries must be allowed to opt out of their health care spending, and be able to realize the benefit of wise health care. Payments to private plans must be reformed to allow seniors access to health plans not currently available in many areas.

Medicare regulations should be reformed to allow greater competition for the provision of services, to remove distorted incentives under current mechanisms, and to improve financial

accountability. These are important components to bringing the Medicare program in line with market based health system improvements.

The necessity for Medicare reform is not simply financial. It is about preserving a program that is in danger of failing not only its future beneficiaries but also those who depend on Medicare for meeting their health care needs today. It is also about taking responsibility and control from a centralized bureaucracy and returning seniors' health care choices to those best suited to judge their needs — the seniors themselves. The Medicare reforms proposed for in this budget aim at more than extending the life of the program. They seek to strengthen and improve Medicare — to make it better serve beneficiaries through more up-to-date and effective health care delivery methods, and through a sound benefits and payment structure. This can occur only if innovative and forward-looking Medicare reforms are enacted.

The specific reforms assumed in this budget resolution are the following:

- ▶ Slow the growth of total Medicare spending by \$5.6 billion over 5 years.
- ▶ Extends the solvency of the Medicare Part A Trust Fund through 2007 by employing a combination of savings and structural reforms, including the home health care reallocation.
- ▶ Shifts \$88 billion of some health care spending from Part A to Part B, and phase in a premium adjustment over 5 years while continuing to protect low-income beneficiaries.
- ▶ Expands the health care options for Medicare beneficiaries such as Preferred Provider Organizations [PPO's] and Provider Sponsored Organizations [PSO's], and provides beneficiaries with comparative information about their options.
- ▶ Funds new health care benefits, including but not limited to coverage for expanded mammography services, diabetes self-management, immunizations, and colorectal cancer screening.
- ▶ Does not include increases in copayments, deductibles, or other out-of-pocket costs.

DISCRETIONARY SPENDING

Function 570 discretionary spending is the administrative costs of the Medicare Part A and Part B programs. [INDICATE DISCRETIONARY AMOUNTS WHEN AVAILABLE.]

FUNCTION 600: INCOME SECURITY

FUNCTION 600: INCOME SECURITY (in millions of dollars)

	1997 est.	1998	1999	2001	2002
Budget Authority	000.000	000.000	000.000	000.000	000.000
Outlays	000.000	000.000	000.000	000.000	000.000

POLICY OBJECTIVES

For 12 years, Brenda Brown received welfare benefits from the Aid to Families with Dependent Children program. Then, her state's welfare system changed its orientation from an income maintenance program to a program aimed at enabling welfare recipients to enter the workforce. Brenda learned some basic skills about getting and keeping a job that enabled her to get a temporary job. After gaining a variety of work experience, she then landed permanent employment as a sales clerk at a pawnshop. "People think the pawnshop's nothing, but I'm happy with the money I'm making here," Brenda told her local newspaper. She said that being able to work and pay bills has done wonders for her self-esteem. "I feel great about myself and my children. It's come too," she said. "I heard them saying they wanted to get a job and their mother working . . . It's better any day than sitting at home all day waiting on a man."

Brenda Brown is succeeding because the Nation's welfare system is being transformed from a check writing program to one that emphasizes work and personal responsibility. But beyond Brenda's experience, her children's lives are being transformed as well. Growing up in a home in which their mother is employed will do more than simply improve their material well-being. It is changing how they see themselves, and how they think about their place in society. It is teaching them that there is room in our economy for them, and that they have something to contribute someday. It is making it less likely that they will experience teenage pregnancy, drug abuse, or being on welfare themselves once they grow up.

Most of the Federal Government's income support programs fall in function 600. This

function includes benefits to Federal retirees and railroad retirees; unemployment benefits; low-income housing; food-stamps; school lunch subsidies; and financial assistance to low-income groups including families with children, the disabled, the elderly, refugees, and households with high energy costs.

Last year, Congress passed, and the President signed, historic welfare reform legislation. These reforms are designed to combat poverty and welfare dependency by encouraging work and greater personal responsibility among low-income families and individuals. Additionally, they seek to eliminate the availability of welfare as a magnet for immigrants into the United States by strengthening the responsibility of immigrant sponsors for the economic well-being of persons they bring to the United States until those individuals are capable of supporting themselves or until they obtain U.S. citizenship.

Under the welfare reform law, funding for Federal welfare programs including the Temporary Assistance for Needy Families block grant, the child care block grant, child support enforcement, foster care, food stamp nutrition, Supplemental Security Income and the Social Services Block Grant will increase by 19 percent between fiscal year 1998 and fiscal year 2002. Similarly, spending for the Earned Income Credit will rise by 17.2 percent during the same period.

These funding levels are increasing at a time of unprecedented reductions in welfare caseloads. Since 1993, 2.8 million Americans have left the welfare rolls. This positive trend has resulted in part from efforts at the State level to encourage work, discourage out-of-wedlock births, and to encourage those on welfare to obtain self sufficiency as a means of gaining a better life for their children. These efforts were enhanced by enactment of last year's legislation, which sent a message to those on welfare that a lifetime of dependence is no longer an option.

MAJOR POLICY ISSUES

MANDATORY SPENDING — WELFARE

The budget resolution accommodates several modifications to the historic legislation that the President signed last year. It restores eligibility for Supplemental Security Income [SSI] disability benefits for those noncitizens who entered the United States prior to May 1, 1997. Individuals who entered the United States after May 1, 1997 will be eligible to receive SSI disability benefits if they are now disabled, or if they become disabled in the future.

But the balanced budget plan retains the ban on noncitizen eligibility for SSI benefits for nondisabled noncitizens, and for all noncitizens who entered the country after May 1, 1997. By maintaining these restrictions on SSI benefits for noncitizens, the balanced budget plan

preserves an important reform which will discourage future immigration based on the desire to benefit from America's generous social safety net.

Prior to enactment of last year's welfare reform law, immigration was contributing significantly to the growth of entitlement spending. For example, 51 percent of SSI senior citizens benefits were paid to noncitizens. Noncitizen applications for SSI increased 580 percent between 1982 and 1994, compared with an increase of 10 percent for U.S. citizens. Welfare benefits to noncitizens cost American taxpayers at least \$8 billion annually prior to reform. Under the budget resolution, public benefits remain available to noncitizens who have worked in the United States and paid taxes for at least 10 years, or who are members of the U.S. military or dependents of veterans, in addition to persons who become naturalized citizens.

The budget resolution also creates additional workfare positions for able-bodied adults subject to new work requirements in the Food Stamp Law enacted last year. The balanced budget plan provides funding for creation of an additional 380,000 work slots within the Food Stamp Employment and Training Program over the next five years. The plan also permits governors to offer hardship exemptions to 5 percent of those individuals in their states who lose Food Stamp benefits because of their inability to comply with the work requirement.

Although the balanced budget plan provides additional opportunities for obtaining workfare and adds an additional opportunity for governors to waive the work requirement in certain cases, the basic structure of the work requirements enacted last year remains intact. Under the reform, able-bodied adults with no child care responsibilities must work at least 20 hours per week to continue eligibility for food stamps after they have received 3 months of benefits in any 12-month period. If the individual becomes employed and then is laid off during the period, they become eligible for another 3 months worth of benefits without the need for 20 hours per week of work activity. Governors may request a waiver of the requirement for persons who live in areas of high unemployment, where jobs are unavailable. But the budget resolution maintains the view that able-bodied childless adults have a responsibility to work at least part time in communities in which jobs are available.

The balanced budget plan also accommodates the President's request to provide additional funds to states to assist long-term welfare recipients make a successful transformation into the world of work. The Budget Resolution provides \$2 billion over 5 years directly to state and local governments to generate job opportunities for welfare recipients who have been on welfare for at least 18 consecutive months. The funds can be used for public sector job creation, or as wage supplementation for jobs in the private sector and with nonprofit organizations.

A recent Internal Revenue Service study of the Earned Income Credit confirmed a substantial problem of fraud and overpayment within the program. As much as \$5 billion annually is being lost in fraudulent claims and overpayments, with one in four EIC claims examined by the IRS containing errors. The overpayments appear to be divided evenly between deliberate fraud and honest errors made by taxpayers who are confused by the complexity of the credit. Moreover, the IRS noted, the program is subject to abuse because there are fewer enforcement activities to detect fraud within the credit than there are for other welfare programs.

Last year, a number of reforms were enacted to improve detection of fraud and overpayment within the Earned Income Credit. These included the authority for the IRS to use "math error" procedures in processing EIC claims, and requiring the use of valid Taxpayer Identification Numbers [TIN] in claiming the credit. But the extent of abuse within the EIC as measured by the IRS calls for further efforts to eliminate unnecessary overpayments.

The balanced budget plan accepts several recommendations made by the administration to further address the problem of overpayment within the Earned Income Credit. Among these recommendations are requiring "due diligence" of the taxpayers filing EIC claims and increased penalties for failing to do so. Additional IRS resources to police the credit will be made available, and a demonstration project in four states will examine alternative methods for providing the credit. Penalties for deliberate fraud will be increased, and a greater burden of proof will be required of taxpayers claiming the credit who have had their claims denied. Together, these reforms are estimated to generate \$124 million in savings over the next 5 years.

Although these efforts are a start, the magnitude of the problem suggests that more must be done in the future if the extent of pervasive fraud and overpayments is to be completely eliminated. Additionally, there remain outstanding issues concerning levels of unearned income and the inclusion in modified Adjusted Gross Income which should be examined in the future. In the mean time, the balanced budget plan continues the effort begun in last year's reform legislation to improve fraud detection and eliminate erroneous payments from the Earned Income Credit.

MANDATORY SPENDING — THE FEDERAL RETIREMENT SYSTEM

Ms. H. spent several decades working for the Social Security Administration. During her career as a Federal employee, she helped to implement the Supplemental Security Income Program, which has contributed significantly to reducing poverty among elderly widows. Now retired, widowed, and living in a suburb of Dallas, Texas, she relies on her annuity from the Civil Service Retirement System for an important part of her income.

Leah's son Bill is a dentist in private practice in a small rural Texas town. He made financial sacrifices to purchase the equipment needed to maintain a dental practice, and now, at age 41, he works hard to support his wife and daughter while facing a heavy Federal tax burden. As a self-employed individual, he must rely on Social Security and his own savings and investments to provide a secure retirement income for his future. The savings must be made on top of what he must save for his daughter Morgan's future education expenses.

Bill's cousin is a Federal employee working in Washington, DC. He began working in the Federal Government in 1984, and is a participant in the Federal Employees Retirement System. Now in mid career, he participates in the Thrift Savings Plan, which will provide an important share of his future retirement income. He also anticipates receiving a FERS annuity and Social Security benefits when he retires.

All three of these people are linked by more than family ties. They all pay Federal taxes that support the Federal retirement system. Bill Heczko will never personally benefit from the system, but it provides a retirement income that allows his mother to live comfortably, and to enjoy the occasional foreign trip or evening out at a show and dine in a nice restaurant. Leah Heczko not only relies on her CSRS benefits to pay for many living expenses, but as well she receives health benefits through the Federal Employees Health Benefits Plan [FEHB]. Her nephew in Washington currently pays both Federal income taxes and the employee contribution to the CSRS system in anticipation of future financial security in retirement.

What all three of these people may realize is that the financial footing of the Federal retirement system is being eroded by a never-increasing tax burden on non-participants in these plans to support future benefit payments. Although policymakers have protected the interests of federal retirees in the past, there is no contractual obligation on the part of the government to pay promised benefit levels to future retirees. What the government has given to Federal retirees, the government can take away if the Federal tax burden on the rest of the nation's taxpayers grows too large to cause a major change in public attitudes. To better protect the retirement benefits that Leah and her nephew have worked hard to earn, changes must be made now to reduce the share of costs that the federal retirement system currently places on federal taxpayers.

The Federal civilian retirement system currently has an unfunded liability of \$540 billion. It is a major contributing factor toward spiraling entitlement spending in the federal budget. Despite the fact that the number of persons who will fill career civil service positions is expected to remain relatively constant or to decline slightly in the foreseeable future. Thus, maintaining the Federal retirement programs on a sound financial footing must be a priority to ensure secure retirement benefits for current and future plan participants while also limiting the potential for an overwhelming tax burden on future generations of taxpayers.

To better understand the looming problems in Federal retirement funding, an examination of the trend toward growing costs is in order. In 1960, the Civil Service Retirement System (then the prevailing retirement plan for civilian Federal workers) took in cash receipts of \$758 million from plan participants and paid out \$893 million in benefits to retirees, resulting in a shortfall of \$135 million which was provided by payments from the U.S. Treasury. In 1997, the federal civilian retirement system (including CSRS and the Federal Employees Retirement System) will take in \$24 billion in contributions while making benefit payments of \$41.3 billion, resulting in a shortfall of \$17.3 billion which must be made up from the U.S. Treasury. Forty years from today, in 2037, the amount of contributions that taxpayers must provide to maintain the system's viability will grow 546 percent to \$144 billion. Clearly, this trend is unsustainable, and represents a serious threat to the security of the benefits promised to future plan participants.

The balanced budget plan assumes enactment of a 1.51 percent permanent increase in the federal agency contribution to the Civil Service Retirement and Disability Trust Fund (CSRDF) for their CSRS employees. The increase would be included in this contribution increase. The plan also assumes a phased-in 0.5 percent increase in the employee contribution to the retirement trust funds for CSRS and FERS employees, including postal employees. The increase would begin in 1998, and would reach the full .5 amount in 2001. Agency FERS contribution amounts would not be reduced.

The resolution does not assume any delay in the payment of cost-of-living adjustments.

MANDATORY SPENDING — HOUSING

Currently, low-income tenants receive subsidies for their units which are far in excess of market rates for comparable buildings. This proposal, an extension of current law, which expires at the end of fiscal year 1997, would slow the growth of those subsidies for units whose rents are currently above 120 percent of the fair market rent. It would also increase subsidies for those apartments where there has been no tenant turnover. This proposal has been supported by the administration in the past and has also been in the Blue Dog Budget.

By giving the FHA more flexibility to work with homeowners who are in default on their mortgage, costs to the FHA mortgage insurance fund can be avoided. This is a proposal originally introduced by the Democrats on the Banking Committee and is supported by the administration. It is in current law and should be extended permanently through authorizing legislation rather than extended yearly by the Appropriations Committee, since now for the past 2 years it has been used to offset other spending rather than for deficit reduction. This proposal calls on the House Banking Committee report legislation making this policy permanent.

DISCRETIONARY SPENDING — HOUSING

The budget resolution assumes that total function 600 spending will be reduced to the 1997 level over the next 5 years.

The American Dream starts with a safe decent place to live. As Americans fulfill their dream, they move up the housing ladder — from transitional housing, rental, to rent/purchase, and finally to home ownership. Nearly two-thirds of Americans own their home with fully 90 percent aspiring to home ownership — a nearly 25-percent difference. Federal housing policy should insure that everyone seeking to own their own home be able to do so and those that wish to rent have access to affordable housing.

The private sector is the best mechanism for providing the housing needs of most of the Nation's citizens. Governments, however, play narrow, targeted roles in housing because decent and safe housing provides positive economic, social and political benefits that stabilize neighborhoods and communities and benefit all members of society. Thus, Federal, State, and local governments should supplement the private sector resources only when necessary, remove unnecessary and costly regulations that relate to building, selling and financing housing, and work in partnership with the private sector to ensure an adequate supply of affordable housing for all and raise the home ownership rate in the United States.

Today there is a need for at least 10.5 million affordable housing units — a third are in the central city, a third in the suburbs, and a third are in rural areas. Who needs affordable housing? Low income households and individuals. Sixty percent of low income households are with forty percent of the population, either Hispanic or African-American. Elderly populations with special needs will explode over the next few years as the baby boomers move to retirement communities. Many Americans continue to be housing poor.

Paul S. Grogan, the president and chief executive, Local Initiatives Support Corporation finds: "It's time to step back and finish the job of making affordable housing available to every American." Special focus should be on the poor, elderly, disabled, homeless, and those wishing to own their own home.

The Federal Government plays an active role in housing Americans. The Federal Government spends about \$35 billion on housing initiatives which serve just under one-third of the need. The cost per family of 4 is about \$900 per month. In most of America, \$900 a month is enough to buy a nice home with hundreds of dollars left over. Democrats, Republicans, conservatives, and liberals agree "that much of the Federal housing 'cash flow' is being wasted." Milliard Fuller, the president and founder of Habitat for Humanity, says that it is "ridiculous, shameful, and disgraceful" that government has not done more.

Housing solutions developed by those who share the same zip codes are many times more likely to be successful than Washington mandates. The Federal Government should support community efforts to assist low income individuals and families to move up the housing ladder and provide at least 80 percent of Americans the opportunity to participate in the American Dream of home ownership. Community-based solutions need Federal support along with assistance from states and the private sector including mortgage bankers/brokers, builders, developers, rental housing owners, housing nonprofits such as Habitat for Humanity and public housing authorities, and many others who work together.

The Federal Government spends its \$35 billion per year through approximately 200 housing programs. Federal housing programs have not strengthened communities and neighborhoods. Federal programs are too numerous, overlapping, uncoordinated, and repetitive. They rarely recognize the import of family, community organizations, and state and local governments.

The Federal housing "cash flow" is a substantial amount that should be redirected to highly leveraged community based housing initiatives and home ownership programs. Community-based organizations often combine government dollars and tax credits with private contributions, loans, and other resources to "leverage" government housing dollars by 2, 3, 4, 5, or even 6 times, and are more likely to build affordable housing.

Fully a quarter of Americans want to own a home but don't own one. A family living in their own home can build their future and invest at a time by making mortgage payments and accumulating equity. Today, 44 percent of Americans' net worth is in their homes. Home equity is an important saving mechanism for old age. In addition, home equity may be used for education, and to pay emergency health bills.

A community focus brings renewed responsibility to state and local governments as well as the private for profit and not for profit housing corporations. The NIMBY attitude (Not in My Back Yard) must be overcome. In many communities, teachers, police, firefighters and others who work to support the community cannot afford to live there. Affordability is often at the mercy of existing restrictions on development and fees and the entrepreneurial spirit of housing corporations. Few not for profit housing corporations have built units in large numbers. New business associations between for profit and not profit housing organizations could increase dramatically affordable housing units. World class construction companies — Bechtel, Brown and Root — as well as local and regional contractors and manufacturers must work with local communities to build millions of housing units. Over the next 15 years, an average of 1 million additional affordable units per year should be built.

Federal housing dollars must be used better. Targeted Federal dollars can help communities

to dramatically increase affordable rental housing and home ownership.

Housing policy is aimed at (a) making sure that every American has affordable housing, and (b) has "decent" housing. Further, it is desired that a high proportion — 80 percent — of households own their own homes.

Housing objectives at all levels should include the following:

- ▶ *Preservation:* Effective policies to help preserve, maintain and improve cost, decent housing already existing.
- ▶ *Production:* Creative, cost-effective, and flexible programs that will increase the supply of quality housing for low-income families, the elderly, and other vulnerable people.
- ▶ *Participation:* Encourage the active participation and involvement and empowerment of the homeless, tenants, neighborhood residents, and housing consumers. We need to build on the American traditions of home ownership, self-help, and neighborhood participation.
- ▶ *Partnership:* Ongoing support for effective and creative partnerships among nonprofit community groups, churches, private developers, and government at all levels. Realtors, home builders, mortgage bankers/brokers, and financial institutions to build and preserve affordable housing.
- ▶ *Affordability:* Policies to help families and individuals to obtain decent housing at a cost that does not result in neglect of other basic necessities.
- ▶ *Quality:* Stronger efforts to combat discrimination in housing against racial and ethnic minorities, women, those with handicapping conditions, and families with children.
- ▶ *Justice:* There is no better provision for justice than the opportunity to own a home. Social justice is often dependent on the economic condition of individuals and families. Homes are by far the major family asset — 44 percent of the average family net worth is their home. Home ownership is the foundation of the American Dream and a prime condition for justice.

DISCRETIONARY SPENDING — ASSISTED HOUSING CONTRACTS

The present Section 8 Housing program will require large increases in resources just to

maintain the system as it is now structured. The budget resolution assumes adequate funding so these obligations can be met. This will entail renewing contracts on almost two million apartments for 1998 alone. By doing so, the Federal Government will be able to continue to provide assistance to those tenants who presently receive it. The nature of the problem over time worsens, and long term structural reforms are badly needed. The budget resolution assumes the maintenance of the Section 8 assisted housing program at the 1997 level. Though this will entail an increase in resources, the resolution provides for no net increase in subsidized apartments. Except for tenant-based assistance extended to tenants displaced by the demolition of a dilapidated building, for other reasons, no new vouchers or certificates are assumed. The budget resolution also assumes that reforms will be passed by the House Banking Committee allowing rents on Section 8 projects to be reduced to market levels by reducing mortgages on many of these projects. For many of these projects have federally insured mortgages reducing the rents associated with such apartments, mortgage restructuring is essential to avert widespread defaults. The Budget Committee recognizes the need to address concerns related to the tax consequences of many of these mortgages. When reducing the mortgage amount, project owners may face large tax liabilities. Also, there may be a need for reforms in the bankruptcy code related to these particular projects. The resolution assumes the necessary agencies of jurisdiction will work together to produce the appropriate legislative language.

DRAFT

FUNCTION 650: SOCIAL SECURITY

FUNCTION 650: SOCIAL SECURITY (in millions of dollars)

	1997 est.	1998	1999	2000	2001	2002
Budget Authority	000,000	000,000	000,000	000,000	000,000	000,000
Outlays	000,000	000,000	000,000	000,000	000,000	000,000

The budget resolution assumes no changes in the Social Security program.

**FUNCTION 650:
SOCIAL SECURITY**

FUNCTION 650: SOCIAL SECURITY
(in millions of dollars)

	1997 est.	1998	1999	2001	2002
Budget Authority	000,000	000,000	000,000	000,000	000,000
Outlays	000,000	000,000	000,000	000,000	000,000

The budget resolution assumes no changes in the social security program.

FUNCTION 700: VETERANS' BENEFITS AND SERVICES

FUNCTION 700: VETERANS' BENEFITS AND SERVICES (in millions of dollars)

	1997 est.	1998	1999	2001	2002
Budget Authority	000.000	000.000	000.000	000.000	000.000
Outlays	000.000	000.000	000.000	000.000	000.000

POLICY OBJECTIVES

A veteran with a spinal cord injury, suffered in the defense of the United States country knows that the best chance of recovery is through the excellent VA facilities for research into, and treatment of, spinal cord injuries. A priority of this Congress and administration should be to assure this veteran and others rely on VA research and treatment that availability and quality of care will not be maintained but enhanced.

Major issues of the quality and availability of VA medical care are key issues in this budget function. Under the Budget Committee's VA plan, Federal VA total outlays would be \$ _____ billion in fiscal year 1997 compared with projected fiscal year 1997 spending of \$39.445 billion. Comparable budget authority levels are \$ _____ billion and \$39.125 billion respectively. Over the next 5 years, Federal VA outlays would total \$ _____ billion and budget authority would be \$ _____. Federal Medicaid outlays would continue to grow. CBO projects that mandatory outlays will increase from \$21.3 billion in fiscal year 1997 to \$25.0 billion in fiscal year 2002 under the Budget Committee's plan.

Through the Department of Veterans Affairs [VA], veterans who meet various eligibility rules receive benefits ranging from medical care, to compensation, pensions, education, housing insurance, and burial benefits. There are about 25.9 million veterans and about 44 million members of their families. The Congressional Budget Office estimates that total VA outlays for fiscal year 1997 will be \$39.445 billion. This includes discretionary (largely medical care) spending of \$19.346 billion; entitlement and other mandatory spending (compensation, pension, education, etc) of \$21.346 billion; and receipts (-) of \$1.247 billion.

The VA administers a vast health care system for veterans who meet certain eligibility criteria. Care is provided largely in facilities owned and operated by the VA. In 1996, the VA-operated facilities included 173 medical centers, 130 nursing home care units, 375 outpatient clinics, and 39 domiciliaries. In recent years, about 2.8 million veterans used the VA health care system, representing just over 10 percent of the total veteran population.

The VA pays monthly cash benefits to veterans who have service-connected disabilities. The basic amounts of compensation paid are based on percentages-of-disability rating (multiples of 10 percentage points) assigned to the veteran. In fiscal year 1997, 1.6 million veterans will receive disability compensation. Federal obligations totaling \$16.4 billion. The VA pays monthly cash pension benefits to about 714 thousand veterans or their survivors. These pension obligations will total \$1.6 billion in fiscal year 1998.

MAJOR POLICY ASSUMPTIONS

MANDATORY SPENDING

The House Budget recommends increasing total mandatory spending from \$21.3 in fiscal year 1997 to \$25.0 billion in fiscal year 2002. This increase will meet the Nation's obligation to ensure that the benefits provided to veterans are sufficient enable them to enrich their lives, in exchange for their honorable military service.

- *Round Down Compensation to VA to The Nearest Whole Dollar.*
- *Extend Expiration Dates of Current Law That Sunset in 1998.* Permanently extend the following provisions of current law that will otherwise expire in 1998:
 - automatic recovery of costs from health insurers of veterans for non-service-related care;
 - income verification for pension eligibility; the pension limit for persons in medical retirement;
 - the 0.75-percent loan fee for housing loans and extend automatic higher no-bid rate in housing programs.
- *Other Provisions.* The resolution also assumes lifting the prohibition on home loan debt collections and extending real estate mortgage investment conduits.

DISCRETIONARY SPENDING

The budget resolution assumes 1998 discretionary outlay levels \$ _____ billion. This would represent a \$ _____ million increase over the administration's requested appropriation for VA medical care.

FUNCTION 750: ADMINISTRATION OF JUSTICE

FUNCTION 750: ADMINISTRATION OF JUSTICE (in millions of dollars)

	1997 est.	1998	2000	2001	2002
Budget Authority	000,000	000,000	000,000	000,000	000,000
Outlays	000,000	000,000	000,000	000,000	000,000

POLICY OBJECTIVES

In San Francisco, a family turns on the television set to watch the local news. They learn the following:

- ▶ A 59-year-old man out on a morning stroll in Lake Tahoe was fatally shot four times by teenagers. The police arrested four teenagers, 15 and 16 years old, were a thrill show.
- ▶ A 12-year-old boy was murdered. The witnesses say the five juveniles charged with the crime senselessly beat him to death when the young victim refused to give the teenagers a new sneaker.

The U.S. Department of Health and Human Services reported today that the number of 12-to-17-year-olds using illegal drugs has almost doubled in past 2 years.

The threat of crime, especially violent crime, remains one of the most insidious conditions in modern American society; and one of the most important functions of government is to assure personal safety and security for American families.

Crime is principally the role of State and local law enforcement agencies and is best handled by local agencies. The Federal Government's involvement should be to enhance the ability of State and local police to protect their citizens.

MAJOR POLICY ASSUMPTIONS

DISCRETIONARY SPENDING

Federal law enforcement efforts should focus on areas of Federal jurisdiction. The best assistance Washington can provide comes from activities outside the agency choices: activities such as appointing judges whose compassion and sense of justice are focused on victims of crime. The federal government must also play a vital role in protecting families from the scourge of illegal drugs by preventing and deterring them from entering the country.

To implement the Federal Government's role in protecting American families, function 750 assumes funding for Federal law enforcement activities, including criminal investigations by the Federal Bureau of Investigation [FBI] and the Drug Enforcement Administration [DEA], border enforcement and the control of illegal immigration by the Customs Service and Immigration and Naturalization Service [INS], as well as funding for prison construction, drug treatment, crime prevention, and the Federal Judiciary.

For discretionary programs, the budget resolution provides \$21.962 billion in budget authority and \$21.044 billion in outlays will be provided for fiscal year 1998 and \$114.810 billion in budget authority and \$114.521 in outlays for 1998-2002. This amount assumes a budget authority freeze at the 1997 level, adjusted to account for the restoration of Immigration Emergency funding rescinded in fiscal year 1997.

MANDATORY SPENDING

The Patent and Trademark Office [PTO] promotes industrial and technological progress in the United States by promoting the protection of intellectual property rights. The PTO accomplishes these roles through three core activities: patent, trademarks, and information dissemination. The enactment of the Omnibus Budget Reconciliation Act of 1990 enabled the PTO to fully cover its operating expenses through user fees until end of fiscal year 1998. The budget resolution assumes permanent continuation of the fee.

FUNCTION 800: GENERAL GOVERNMENT

FUNCTION 800: GENERAL GOVERNMENT (in millions of dollars)

	1997 est.	1998	1999	2001	2002
Budget Authority	000,000	000,000	000,000	000,000	000,000
Outlays	000,000	000,000	000,000	000,000	000,000

POLICY OBJECTIVES

The people who pay taxes to the Federal Government deserve to know that the government is run as efficiently as possible with their money. This is a subject for function 800, which consists of the activities of the Legislative Branch, the Executive Office of the President, U.S. Treasury fiscal operations (including the Internal Revenue Service), personnel and property management, general public assistance to states, localities, and U.S. territories.

KEY POLICY ISSUES

DISCRETIONARY SPENDING

The budget resolution assumes _____ billion in budget authority [BA] and _____ billion in outlays in fiscal year 1998. Over 5 years, it assumes _____ billion in BA and _____ billion in outlays.

A key issue that warrants attention is reform of the General Services Administration [GSA]. The GSA was established by the Federal Property and Administrative Services Act of 1949 to provide for the Government an economical and efficient system for the procurement and supply of personal property and non-personal services, utilization of available property and disposal of surplus property. Since 1949, GSA has grown to encompass areas not envisioned in 1949. The Hoover Commission, which recommended the creation of GSA, held that the economies of scale that could be achieved by having a centralized purchaser of goods and

services for the entire Federal Government would save money rather than having each individual agency contract for services. The results have been mixed. For too long, GSA provided costly services to captive customers at monopolistic prices, often higher than those available to an ordinary citizen. Agencies had no alternative. As a result, GSA's position derived not from its quality, but from its monopoly status.

draft

FUNCTION 900: NET INTEREST

FUNCTION 900: NET INTEREST
(in millions of dollars)

	1997 est.	1998	1999	2001	2002
Budget Authority	000,000	000,000	000,000	000,000	000,000
Outlays	000,000	000,000	000,000	000,000	000,000

Net interest is the interest paid on the Federal debt minus the interest income received. The interest on the public debt, or gross interest, is the cost to the Treasury of financing the public debt of the federal government. But the Federal Government itself holds some one quarter of the debt, mostly in trust funds, such as Social Security and Federal retirement funds, on which the government then both pays and receives interest. Also, the government receives interest payments from various credit programs. A comprehensive accounting of the costs of borrowing then nets out interest received from interest payments.

Net interest is the price that the government — and taxpayers — pay for yesterday's spending. Money spent to pay interest does not buy anything; it is money not available for other priorities. It carries most of the burden imposed on future generations from additions to the public debt. Currently, the cost of interest in the budget exceeds the cost of the total defense budget. Over 1998 to 2002 is expected to total some \$____ trillion. Moreover, shortly after the current budget window, the national debt is expected to rise explosively, due to adverse demographic trends and the retirement of the baby boomers, eventually reducing the standard of living.

The Budget Committee plan for balancing the budget reduces the deficit over five years which slows the growth rate of net interest from an otherwise ____ percent to ____ percent. The recommended net interest payments rises from an estimated \$____ billion in 1997 to \$____ by 2002. This is much lower than the current policy baseline which would otherwise rise to \$____ billion or by ____ percent over the same period.

Balancing the budget reduces the deficit directly, lowering interest costs because borrowing

to finance the deficit declines. In addition, interest cost are lower because interest rates are expected to be lower from a balanced budget plan. The lower interest payments, of \$xx billion in the Committee plan from what would otherwise be needed further reduces the amount needed to be borrowed.

Function 900 is a mandatory payment, with no discretion to comp

Original

FUNCTION 920: ALLOWANCES

FUNCTION 920: ALLOWANCES (in millions of dollars)

	1997 est.	1998	1999	2000	2001	2002
Budget Authority	000,000	000,000	000,000	000,000	000,000	000,000
Outlays	000,000	000,000	000,000	000,000	000,000	000,000

Function 920 displays the budgetary effects of appropriations that cannot be easily distributed across other budget functions.

FUNCTION 950: UNDISTRIBUTED OFFSETTING RECEIPTS

FUNCTION 950: UNDISTRIBUTED OFFSETTING RECEIPTS
(in millions of dollars)

	1997 est.	1998	2000	2001	2002
Budget Authority	000,000	000,000	000,000	000,000	000,000
Outlays	000,000	000,000	000,000	000,000	000,000

This function records offsetting receipts that are large to record in other budget functions. Such receipts are either intrabudgetary (payment from one federal agency to another, such as agency payments to the retirement trust funds) or proprietary (a payment from the public for some type of business transaction with the government). The main types of receipts recorded as "undistributed" in this function are: the payments federal agencies make to retirement trust funds for their employees; payments made by companies for the right to explore and produce oil and gas on the Outer Continental Shelf, and payments by those who bid for the right to buy off public property or resources, such as the electromagnetic spectrum.

The budget agreement calls for the creation in additional receipts through actions involving the electromagnetic spectrum. This includes four auction proposals and the adoption of a penalty fee that would be levied against those broadcasters who received "free" spectrum for television development that are using the spectrum for other purposes.

MAJOR POLICY ASSUMPTIONS

The Budget Reconciliation Act [OBRA] of 1993 granted the Federal Communications Commission [FCC] limited authority to auction new licenses to use the radio spectrum. The authority, however, was limited to a 5-year period ending on September 30, 1998, and did not extend to many classes of new licenses. The law excluded licenses issued to profit-making businesses that did not charge a subscription fee for telecommunications services.

According to the Congressional Budget Office [CBO], the results of the 5-year experiment

"far exceed the predictions of CBO and virtually all other forecasters at the time the law was passed." In fact, CBO estimates that FCC auctions will produce \$27.0 billion in receipts from the license sales authorized by OBRA-93. That amount includes \$8.0 billion in receipts collected between 1994 and 1996 and an estimated \$19.0 billion to be collected in 1997 through 2002.

This proposal assumes the extension of the FCC's auction authority and broadens it to include any license sought by a private business, except broadcast licenses. It also directs the FCC to reallocate 100 megahertz of spectrum reserved for private operations and 20 megahertz now used by the government.

It assumes the President's proposals to auction 36 megahertz [MHz] of spectrum currently allocated to television channels 60-69 and award 100 megahertz of spectrum for private operations of toll-free "888" telephone numbers through an auction.

It assumes that \$5.4 billion will be raised by auctioning 78 megahertz of spectrum currently allocated to analog broadcasting.

Finally, it assumes that a penalty fee will be levied on those entities who received "free" spectrum for digital television development, but are using the spectrum for other purposes.

DRAFT

REVENUES

The resolution assumes \$85 billion in net tax relief, which can accommodate child tax credit, death tax relief, capital gains tax relief, expanded Individual Retirement Accounts, and relief for families who send their children to college.

Original

ECONOMIC ASSUMPTIONS

Economic Assumptions of the Budget Resolution

The Committee's budget resolution is built upon economic assumptions developed by the Congressional Budget Office (CBO). These assumptions are "post-policy" as they assume policies that will balance the Federal budget in FY 1992 (see Table 1). The economic assumptions comprise a short-term forecast for 1997 and 1998, which reflects the current state of the economy relative to the business cycle, and a longer-term projection for 1999 through 2002. CBO's technical revenue updating, to reflect the consequences of extra revenue in FY 1997, is incorporated. Slight adjustments to CBO's price measures to reflect information on proposed technical changes on the CPI from the BLS, announced after CBO had published its economic forecast, as well as corrections due to reassessments by CBO of recent CPI technical changes are incorporated.

Review of Economic Developments in 1996

The modest growth in current expenditures started in 1992 continued in 1996, at a rate close to the economy's potential real growth rate. The most significant economic developments during 1996 have been that price inflation seems subdued in spite of tight labor markets, monetary policy did not change its moderately restrictive stance, federal deficits in FY 1996 were much lower than projected and the stock market continued its recovery.

The tight labor markets of the last few years do not typically persist, as it has, without leading to bottlenecks in the economy. Shortages of skill should tend to push up compensation, at least faster than the experience thus far in this business cycle. Even the limited rises so far in labor cost have not led to adverse price behavior. One potential explanation is that the potential growth rate of the economy is higher than commonly assumed, because perhaps capacity measures have underestimated the slack available in the economy.

A key factor for this performance is monetary policy, aided by bond market reaction. Since the last recession, the main policy objective of the Federal Reserve

Board [Fed] has been to ensure that its monetary policy supports a rate of economic growth that is consistent with low inflation (the so-called "soft-landing"). In contrast to 1994 when the FED raised rates several times in response to fairly brisk economic growth in 1994 to preemptively lower inflationary pressures, the Fed held rates steady for 1996 (after a mild cut in January) even as growth accelerated.

This was possible without adverse consequences because in the first half of 1996, long-term interest rates were boosted up by the bond market in anticipation that strong growth in employment would lead to inflationary pressures. In addition, special factors held down inflationary pressures. These factors include: a continuation of the world-wide trend towards lower energy prices so that import prices declined, continued sharp slowdown in medical care costs, and especially rapid declines in computer prices and technical revisions by the Bureau of Economic Statistics (BLS) on the CPI. At some point over the next two years, in the absence of these temporary factors will increase inflationary pressures.

During the year, a low-inflation environment continued high corporate profits and momentum continued to boost the stock market, as individuals shifted massively to investing in financial assets. (Housing is the major asset investment for consumers, yet in a low-inflation environment the returns to physical assets such as housing fall and returns to financial assets rise, as seen in the past 2 years with the boom in the stock market and stagnating housing prices.) Many analysts, including the Chairman of the Federal Reserve, Alan Greenspan, warned of a possible speculative bubble in the stock market, or "irrational exuberance," as the gains in the stock market outstripped reasonable economic fundamentals would imply.

In spite of the largely stable economic environment, many concerns have been raised about household debt. Household debt burdens are increasingly heavy, rising to historically high levels. Personal bankruptcies rates have risen to new levels. So far, the growth in debt has been offset by the rise in household financial assets, of which an increasingly larger portion is based on equities. The personal savings rate, even after a modest rise over the last two years, continued to be well below the historical average of 10% to a decade ago. Widespread job anxiety may have significantly held back wage growth. Consumption growth continues to lag as it did in 1995, even though personal incomes rose.

The federal budget deficit dropped sharply lower for 1996 to a level half of that projected two years ago. This drop is also reflected in lower future deficit levels.

Personal tax receipts increased more than expected, due to growth in the economy and legislative changes over the last few years, raising the prospect that the national income statistics have been mismeasuring incomes, or that tax receipts are not picking up trend changes in the composition of tax payments.

Short-term Outlook for 1997 and 1998

CBO estimates the growth rate of real GDP to be 2.1 percent in 1997 and 2.2 percent in 1998. The short-term forecast also shows that during 1997 and 1998 both growth and inflation will remain unchanged, but that the unemployment rate of 3.4 percent at the end of 1996 is expected to rise to 5.6 percent by 1998, and to 6.0 percent by 2002. The inflation rate will also rise slightly to about 3.0 percent by 2002. Both short-term and long-term interest rates (3 month and 10-year Treasury notes) are expected to remain unchanged from their levels in 1996.

The short-term forecast of GDP growth assumes continued spending by consumers on durable goods such as autos and appliances, and continued spending on capital goods. But the Budget Committee continues to acknowledge the slow growth expressed by some analysts that consumer spending may be inhibited by household indebtedness and stagnant wage growth over the short-term horizon.

Long-term Outlook Through 2002

CBO's long-term projections assume that the Fed will pursue a low-inflation environment that will keep the rate of economic growth close to its long-term potential and that there will be no recession at some time in the projection period. Given a balanced budget, CBO projects for the period 1998 to 2002 that the economy will grow between 2.1 percent and 2.3 percent annually.

This assessment is held by most analysts, that the economy appears to have entered a sustained period of slow growth: 2 years ago the long-term potential growth rate of the economy was thought to be about 2.5 percent. Analysts have lowered this estimate to between 2.1 percent and 2.3 percent currently. This lower than post-war average growth in the economy's potential growth rate is explained by two factors. First, productivity growth continues to be lower than the first half of the postwar period. Second, average labor supply growth is expected to be slower than average, due to demographic trends and lower expected labor force participation rates. Accordingly, projections of slower labor force growth in the future implies a reduction in the potential growth rate. Combined, both factors have lowered the potential growth rate by an average of 0.4 percentage points annually.

The Fiscal Dividend

CBO's economic projections assume that the Federal budget will be balanced by 2002. Economists generally believe that implementation of a credible deficit reduction plan will generate economic benefits in the form of lower interest rates, higher national savings, higher investment, and faster economic growth. These economic benefits will affect the Federal budget by reducing interest payments and increasing revenues, thereby reducing projected deficits. This budgetary effect is referred to as the "fiscal dividend." CBO assumes that a balanced budget will lower interest rates by 0.7 percentage points and cause a slight increase in productivity and real GDP by 2002. Including debt-service savings due to these effects allows for a fiscal dividend of \$77 billion over five years 1996-2002. This figure is much lower than the figure projected last year of \$153 billion, because of a lower FY 1996 deficit, having one year less in the period to balance, and a slower response of interest rates.

CBO's \$225 Billion Revision in Revenues

At the end of April, CBO incorporated into its May revenue projection a stream of \$45 billion in lower deficits each year for 1997 to 2002, to reflect increases in income tax payments collected in 1997. During April, the critical tax month, large unexplained receipts occurred.

CBO estimates a total of \$45 billion in extra revenues for 1997, \$35 billion of which were already collected. For the remainder of this fiscal year, \$10 billion was collected, giving a total of \$45 billion for this year, and reducing the FY 1997 deficit to \$10 billion. This deficit will be much lower than anticipated (CBO previous estimate was \$124 billion, OMB estimate is \$124 billion). Previous to this change, private estimates of the federal deficit, using national economic statistics, had been consistently much lower than official and CBO estimates, which are based on tax receipts, by typically \$20-30 billion.

CBO judged --as did some private forecasters-- that the higher taxable incomes recorded than expected is most likely to persist, hence future deficits will be lower. This is reflected in later years as a shift in levels reducing the deficit by \$10 billion each year from 1998 to 2002. Revenues decline steadily while debt service savings from a lower deficit become ever larger.

CBO balanced off factors arguing for a continuing trend for higher revenues (such as there is mismeasurement in the national economic statistics or changes in tax behavior) and the possibility that these might be temporary factors. These factors include:

- 1) There may really be more income than the national economic statistics are measuring; the evidence includes an expanding large statistical discrepancy;
- 2) Real potential growth is higher than CBO had assumed;
- 3) Effective tax rates are different than CBO had assumed;
- 4) On the tax side, revenues may be reflecting more income going to the wealthy and/or to proprietors that is not otherwise measured; or that there may be more capital gains realized this year (this factor was not true last year).

More precise estimates are not possible for the new forecast and baseline. The available evidence is not sufficient to render a definitive answer.

Technical Changes on Price Measures

CBO's assumptions on inflation does not incorporate new information on proposed technical changes on the CPI from the Bureau of Labor Statistics (BLS), announced after CBO had published its economic forecast, as well as corrections due to reassignments by CBO of recent CPI price changes. The BLS has announced its plans for further revisions to the CPI after the CBO finished its forecast and baseline. This includes, as part, and in addition, to its plans for the 1998 revision, technical changes by BLS on the CPI as part of their normal activities. These changes do not require legislative action by the Congress.

Since the changes can be expected to have some effect on reducing the bias in the CPI, CBO's estimates of these actions are incorporated. (CBO has often reflected upcoming technical changes on the CPI by BLS in their baseline.) The net changes on CPI due to technical changes, as estimated by CBO and assumed by the Committee, is tenths of a percent annually starting in 1999, so that effectively, outlays are affected starting 2000. Since these are measurement changes to correct for bias, they will not have any impact on real variables or their relationships.

BLS has announced plans to decide on which categories of prices it will use a "geometric means" method of weighting prices on the lower level aggregation of price collection. There is little doubt that this change will occur, and that although

not all items categories would be used, such a change would reduce the "substitution bias" in the CPI. The BLS has estimated that such action would likely have the effect of lowering the CPI by between 0 to 0.25 percent going forward in time from 1999, where 0 would occur if there was no adoption of this change and 0.25 would occur if all items categories were so adjusted.

As part of the 1998 CPI rebenchmarking, the BLS has announced plans to change in 1999 the way they choose outlets for sampling items by switching from geographic to commodity group criteria. The new sample design will allow for frequent rotation allowing new goods to be included more rapidly. Doing so is expected to reduce the growth in the CPI because the sample will then include earlier in the product cycle the prices of new goods which typically decline after they are introduced. CBO had estimated that this effect would lower the "new goods bias" in the CPI by between 0 and 0.2 percent.

CBO also adjusted its existing estimates to reflect more technical BLS actions: an increase in the CBO estimate of bias reduction due to the January 1997 change in hospital pricing and a decrease in the CBO estimate of the effect of the 1998 CPI rebenchmarking. These two revisions roughly cancel each other out.

The Committee has made a technical adjustment to reflect another technical correction by the BLS in July 1996. This correction reduces the "formula bias" in the CPI. CBO's estimate of the BLS as reducing the CPI by 0.1 percent. While the Administration adopted this measure, and assumed that the CPI would be depressed by 0.04 percent as part of the CBO's prior work, CBO did not assume any additional change to the CPI. CBO believes that the CPI changes after that date reflects some of the effects of such an adjustment. CBO allows that their estimates of taxable incomes may be 0.04 percent too low. The Committee has made the assumption that to be consistent, taxable incomes should be slightly adjusted.

{Insert table of Committee economic assumption}