

MEMORANDUM FOR: SA/DeI

Joe: As a Cabinet  
member DCI should  
be aware of this. As  
DCI he should probably  
scan pp. 251-286

Tom

Date

7/14/83

Ⓢ

DCI

**CABINET AFFAIRS STAFFING MEMORANDUM**

Executive Registry  
 83-3542

DATE: 7/8/83 NUMBER: 118816CA DUE BY: \_\_\_\_\_

SUBJECT: Fairness II: An Executive Briefing Book

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Baker	<input type="checkbox"/>	<input type="checkbox"/>
Vice President	<input type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input type="checkbox"/>	<input type="checkbox"/>	Clark	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input type="checkbox"/>	<input type="checkbox"/>	Darman ( <i>For WH Staffing</i> )	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input type="checkbox"/>	Harper	<input type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input type="checkbox"/>
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CEQ	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/Boggs	<input type="checkbox"/>	<input type="checkbox"/>
OSTP	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input type="checkbox"/>
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			CCNRE/Boggs	<input type="checkbox"/>	<input type="checkbox"/>

*WJF*  
 15 JUL 1983

REMARKS: Enclosed for your use is the Fairness II: An Executive Briefing Book. You may wish to use this book for background material in speeches or in written material.

*L-300*

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 REG



THE WHITE HOUSE

# **FAIRNESS II**

## **AN EXECUTIVE BRIEFING BOOK**

White House Office of Policy Information  
May 1, 1983

THE WHITE HOUSE

WASHINGTON

May 1, 1983

This briefing book was prepared by the White House Office of Policy Information (OPI) with the assistance of OPI staffers Hal Gordon, Bill Keyes, Angie Smith and Gary Holmes.

The book is designed to serve as a resource for Administration officials in dealing with the Administration's economic program, budget proposals and, in particular, the "fairness issue." Any questions regarding the book's contents should be referred to Messrs. Gordon and Keyes.

The authors wish to express their appreciation for the prompt and helpful cooperation received from staff members at OMB, OPD, NSC and the various federal departments.

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### THE EXPLOSION IN SOCIAL SPENDING

- o In President Kennedy's first (FY 1962) budget:
  - Fully 46% went for defense; only 27% for social programs.
  - The U.S. spent \$28.7 billion on social programs.
- o The "Great Society" burst the budget at its seams.
  - Non-defense payments to individuals jumped from \$28.7 billion in 1962 to \$63.2 billion in 1970 -- an increase of almost 120%. Even in inflation-adjusted dollars, payments to individuals nearly doubled.
  - Examples:
    - \* AFDC grew from \$827 million in 1963 to \$1.7 billion in 1969 -- an increase of more than 100%.
    - \* Non-cash transfers rose from \$2.4 billion in 1965 to \$15.4 billion in 1970 -- a increase of 5-1/2 times.
- o During the 1970s, the trend accelerated.
  - Real social spending in 1981 (spending adjusted for inflation) was nearly 2-1/2 times the 1970 level.
  - More examples:
    - \* Food stamps' cost jumped nearly 20 times -- from \$577 billion in 1970 to \$11.3 billion in 1981.
    - \* Spending on both child nutrition and subsidized housing increased by more than 10 times.
    - \* SSI and Guaranteed Student Loans -- two programs which essentially did not exist in 1970 -- spent \$9.5 billion in 1981.
- o As a result, social spending consumed an ever-larger share of the nation's GNP.
  - Expenditures on basic retirement, disability and health programs consumed 3.7% of GNP in 1963; in 1981, they took 8.3% -- an increase of 125%.
  - Other nondefense payments for individuals rose from 1.6% of GNP in 1963 to 2.7% in 1981 -- an increase of nearly two-thirds.
  - In sum, all non-defense spending (excluding interest payments) rose from 9.3% of GNP in 1963 to 10.6% in 1970 to 14.9% in 1981 -- an increase of nearly two-thirds in just 18 years.

#

## SOURCES OF THE SPENDING EXPLOSION

### o Major factors behind the growth in social spending.

- Between 1965 and 1980, the number of federal programs providing means-tested cash or in-kind benefits doubled.
- During this time, the number of people receiving such benefits soared by 300%, from 9 million to 35 million, although the U.S. population grew by only 17%.
- While aid recipients, on average, participated in only one means-tested program in 1965, by 1980 they participated in 3 to 4.

### o Why this social spending explosion was far greater than it should have been.

- Benefits were excessive and poorly targeted, as indicated by Census survey data for 1981.
  - \* By 1981, the year before the President's first budget fully took effect, \$16.9 billion, or 36% of all benefits, went to families whose cash benefits and other cash income placed them above the poverty line. These families included 23 million people.
  - \* The lack of targeting was so severe that \$8.3 billion in aid (18% of all benefits) went to families with cash incomes above 150% of the poverty level. These families included 12.7 million people.
  - \* However, these statistics understate the lack of targeting because they ignore the value of in-kind benefits (non-cash benefits, such as medical, nutrition and housing assistance) in measuring individual and family well-being.
    - These benefits constitute nearly two-thirds of all means-tested aid covered in the survey.
    - When these benefits are counted as part of a family's resources, \$39.2 billion in means-tested programs -- 83% of all benefits -- went to non-poor families.
    - Also, \$20.0 billion, or 42% of all benefits, went to families with total cash and in-kind incomes above 150% of the poverty line.
    - Examples: AFDC (27% of benefits went to families with incomes above 150% of poverty); SSI (62%); food stamps (25%); medicaid (53%); free and reduced price school lunch (33%); public housing (47%); and rent subsidy (54%).

-- Waste and error were rife.

- \* States, which administer the AFDC, medicaid, and food stamps programs, improperly paid out \$3.5 billion in benefits in FY 1981.
- \* In food stamps alone, \$1 of every \$10 was improperly paid.
- \* In 1980, half a billion dollars of medicaid insurance payments could have been collected, but were not.
- \* States were failing to ensure that parents who had left their families met their child support obligations. Only one-third of AFDC recipients were covered by court orders, and only half of covered persons were receiving full payment. Overall, about \$1 billion in court-ordered payments for AFDC recipients went uncollected in 1981.
- \* In FY 1981, as much as \$500 million was overpaid in the school lunch program.

-- Programs were poorly designed.

- \* Work disincentives were so great in aid programs that only 12.6% of adults receiving AFDC and 17.7% of food stamp household heads aged 18 to 59 worked at all in FY 1981 (prior to the 1981-1982 recession).
- \* In the Section 8 existing housing program, amounts tenants pay for rent is determined by income. Because tenants are not actually involved in negotiating unit rents and because the government determines "fair market rents," rents for units in the Section 8 Existing Housing Program average 26% above rents for comparable non-subsidized units.
- \* Because of the lack of cost control incentives in medicaid, medicaid costs rose 354% from 1971-1981, or an average of 16.3% per year, while the number of medicaid recipients increased only 1.3% per year -- that is, costs increased 13 times as fast as the number of recipients even though the general price index increased an average of only 8.4% per year.

#

## ECONOMIC CONSEQUENCES OF THIS SPENDING EXPLOSION

### o Inflation worsened.

- From 1960 to 1965, prices never rose more than 2% in a year.
- By 1969, the inflation rate had tripled -- to 6.1%.
- By 1979 and 1980, it had doubled again, and America suffered back-to-back double-digit inflation for the first time since World War I.
- By 1980, value of a 1960 dollar had shrunk to 36¢.
- A pound of hamburger costing 57¢ in 1960 had risen to \$1.58, and was heading toward \$2.00.

### o Interest rates rose.

- From 1960 to 1965, the prime rate, on an annual basis, never rose above 5%.
- Since 1965, the prime rate, on an annual average basis, has not fallen below 5%.
- The monthly prime rate has not fallen below 10% since 1978, and from 1979-1981, the prime rate averaged 15.6%.
- Mortgage interest rates averaged more than 13% in 1980 -- the highest level in U.S. history at that time, and double the levels of the early 1960s.
- At that rate, some 90% of those who rented could not afford to buy a home.

### o Unemployment worsened.

- Whereas unemployment averaged 4.5% in 1951-1960 and 4.7% in 1961-1970, it averaged 6.4% in 1971-1980 -- more than one-third higher.
- Whereas the lowest annual unemployment rate in the 1951-1960 period was 2.9%, and in the 1961-1970 period was 3.5%, the unemployment rate never fell below 4.9% on an annual basis in 1971-1980, and never fell below 5.8% on an annual basis in the last half of the decade.

### o Effect on the family.

- Real family incomes increased more than 16% between 1960 and 1965.

- Real family incomes -- that is, incomes adjusted for inflation -- were actually lower in 1980 than in 1969.
- Because taxes increased sharply during this period, real family take-home pay declined by much more.
- A Congressional Joint Economic Committee report calculated that the slowdown in productivity growth in the 1970s cost the average household \$3,700 in income in 1978.

#

### THE EFFECT ON POVERTY

- o Key question: If federal social spending significantly improved the lot of the poor, wouldn't some economic deterioration be a minor price to pay?
- Follow-up question: Did the explosion in federal social spending actually improve the lot of the poor?
- o Three measures of the poverty level:
  - Official poverty level (most common measure): Includes family's private income plus government cash assistance.
  - Net poverty level: Includes above, plus government in-kind assistance (e.g., food stamps, housing aid, medicaid).
  - Earnings-only poverty level: Includes only family's earnings (How many people would be poor if not for government aid?)
- o The course of the "official" poverty level.
  - Between 1950 and 1965 (the year the "Great Society" began), official poverty fell from an estimated 32% to 17% -- a drop of 15 points in 16 years.
  - Between 1965 and 1969, official poverty fell from 17% to 12% -- a drop of 5 points in 5 years, exactly what should have been expected based on previous trends.
  - Then, after two decades of reasonably steady progress, improvements in poverty slowed in the late 1960s and 1970s.
    - \* A higher percentage of the public (13.0%) were officially in poverty by 1980 than at any time since 1967.
    - \* There were more people in poverty in 1980 than in 1966 (29.3 million vs. 28.5 million); there were five million more people in poverty in 1980 than in 1969.
  - It was not until the budgets of 1967 and 1968 that the Great Society programs were reaching enough people to have a sizable impact on the budget, and thus that social welfare expenditures began to take off -- yet it was at that precise time that progress in reducing poverty came to a grinding halt.



o The course of the net poverty level.

- Net poverty is a far more relevant measure of a family's financial condition than "official" poverty, because food stamps, housing aid, and the like add to a family's real resources just as cash assistance does.
- According to figures compiled by Charles Murray, net poverty declined steadily from 1950 to 1968, falling from 30% to 10%.
- Net poverty continued to decline to 6.2% by 1972.
- Yet despite a tripling of in-kind assistance (in inflation-adjusted dollars) during the 1970s, net poverty stood at 6.1% in 1980 -- almost identical to the 1972 level.

o The course of earnings-only poverty.

- This is the crucial measure.
  - \* Government's goal should be to create the economic conditions that will help Americans become financially independent.
  - \* President Lyndon Johnson in 1964: "We are not content to accept endless growth of relief or welfare rolls. We want to offer the forgotten fifth of our population opportunity and not doles. ... The days of the dole in our country are numbered."
- Between 1950 and 1963, the earnings-only poverty rate fell by more than one-third, to 17.9%.
- The proportion of earnings-only poor continued to drop, falling to 12.0% in 1969.
- But at that time (again, just when the poverty programs were taking their full effect), the declines in earnings-only poverty stopped, despite the fact the economy was in an economic boom.
- \* For non-aged persons, the earnings-only poverty rate reached 17.2% in 1974, and rose to 21.1% by 1981.
- \* Indeed, once the variations in economic growth are factored out, one conclusion is inescapable: the increases in social welfare spending do not account for any overall reductions in earnings-only poverty during the last three decades.

o Thus, the social spending explosion has not eliminated, or even reduced, the nation's true poverty problem; it has only papered over the problem.

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### THE EFFECT ON THE POOR

- o Not only has the explosion in social spending failed to reduce real levels of poverty, but it has actually made life worse in many ways for low-income Americans.
- o The poor have suffered the most from economic deterioration.
  - Despite receiving an increase in dollar benefits of about one-third over the 1970s, the average AFDC recipient lost nearly 30% in benefit purchasing power during the decade because of inflation.
  - Inflation in 1979 alone translated into a loss to a four-person poor family of \$750 in purchasing power.
  - Because the poor spend up to 70% of their family budgets on necessities, there were very few ways they could cut back to beat inflation.
  - Yet the economic slowdown, and its attendant loss of job opportunities, left the poor with no real alternative but to subsist on these shrinking real resources
- o The poor have become more, rather than less, dependent on federal aid for their economic existence.
  - According to figures compiled by Charles Murray, whereas in 1950 only 3% of the non-poor population depended on government aid to keep them out of poverty, by 1968, this level had increased by three times, to 9%, and by 1980, it had nearly doubled again, to 17%.
  - Indeed, the Great Society programs' economic disincentives to becoming self-sufficient were so great that the proportion of low-income Americans holding a job fell by 1.4 points between 1968 and 1980.
- o The poor have suffered from increasing family disintegration.
  - The Great Society programs were so structured that they rewarded family break-up (such as through the provision of higher benefits for families where the husband was not present) and likewise increased the cost of families remaining together.
  - At least partially as a result, the percent of intact husband-wife low-income families fell from 72% in 1965 to 49% in 1980 -- a drop of one-third.

o The dilemma.

- Because of this, low-income Americans, to an increasing extent, depend on government aid to help meet their basic needs, putting further upward pressure on social spending budgets.
- The explosion in social spending to meet these demands has worsened economic conditions, making it nearly impossible for the poor to become financially self-sufficient.
- Key question: How to slow the growth of social spending while maintaining aid to those who truly need it.

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**THE ANSWER: ECONOMIC GROWTH WITHOUT INFLATION**

- o **The problem:** How to improve low-income Americans' economic conditions (i.e., increase their incomes) while simultaneously preserving overall economic health.
- o **The wrong answer:** Throwing money at the problem.
  - The painful consequences of the social spending explosion of the last decade and a half speak for themselves.
  - These consequences are inevitable whenever spending is left to grow unchecked:
    - \* Every dollar spent by the federal government must be taken away from the private sector, either through taxation or borrowing.
    - \* Left with fewer resources, the private economy's activity will be lower, and its job opportunities fewer.
    - \* Since the federal government is generally far less efficient at creating jobs than is the private sector, the loss of private sector jobs brought about by a transfer of resources to the federal government will almost always be greater -- often substantially greater -- than the number of jobs created by the federal spending. Hence, the total number of jobs in the economy will fall below what it otherwise would have been.
    - \* At a given level of monetary growth, higher government spending also typically produces higher inflation rates because:
      - Fewer goods and services, at the same level of monetary growth, causes prices to be bid up.
      - Growing budgets generally create pressures for faster monetary growth which, everything else being equal, only further fuels inflation.
  - The poor suffer the most from both unemployment and inflation.
- o **The right answer:** Economic growth without inflation.
  - Economic growth creates jobs.
    - \* During the years 1950-1980:
      - In the 18 years in which the economy grew by 3% or more, an average of more than 1.8 million new jobs were created each year.

- In the 13 years in which the economy grew by less than 3%, an average of less than 710,000 new jobs were created each year -- nearly two-thirds less.
- In the 7 years in which the economy grew by less than 2%, an average of only 29,000 new jobs were created each year -- less than 2% as many as were created, on average, in the high-growth years.

- \* Jobs are vital; only through productive private sector jobs can low-income Americans gain a foothold on the economic ladder, and eventually -- as they begin to climb the ladder -- become economically self-sufficient.
- \* Even in the short-term, low-income individuals who work are economically better off than those who do not. For a person (e.g., divorced mother of two) at the poverty level, her income will be from 61% to 149% higher if she has a full-time minimum wage job than if she has no job and tries to subsist only on government assistance.

-- Economic growth helps the poor escape poverty.

- \* According to a calculation by Charles Murray, the official poverty rate fell by nearly two-thirds over 1950-1968, when economic growth averaged 4.1%.
- \* The poverty levels remained essentially unchanged between 1969 and 1980, when economic growth averaged 2.9% -- nearly one-third lower than in 1950-1968.
- \* In fact, every 10% increase in economic growth is associated over this period with a 7% decline in the poverty level.

-- Keeping inflation down protects these gains.

- \* Lower inflation leads to lower unemployment.
  - From 1970 to 1972, the inflation rate fell by more than a third. In 1973, the unemployment rate fell below 5% for the first time in three years.
  - From 1974 to 1976, the inflation rate fell by more than half; from 1975 to 1979, the unemployment rate fell by nearly one-third.

\* Lower inflation increases the poor's purchasing power.

- A poverty level family with a constant income will have nearly 5% greater purchasing power in a year in which inflation is 5% instead of 10%.
- This low-inflation dividend is especially important to the poor, who spend the large majority of their incomes on necessities.

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**THE ECONOMIC RECOVERY PROGRAM****o Reduce the growth of federal spending.**

- Spending grew by 17.4% in 1980 and 14.0% in 1981.
- President Carter had planned to reduce spending growth by 1984 to 8.9%; President Reagan's budget will hold spending growth to 5.4% -- more than a third lower.
- Excluding uncontrollable interest payments, President Carter's 1984 budget was to have held spending growth to 10%; President Reagan's 1984 budget will hold spending growth to 4% -- nearly two-thirds lower.
- Whereas spending grew an average of \$79 billion per year over the three years from 1979 to 1982, it would grow by only about half that much -- \$43 billion -- in 1984.

**o Reduce tax rates.**

- Individual income tax rates will have fallen by 25% by July of this year, helping to offset much of the huge tax increases that had been planned by the previous Administration.
- Tax indexing, to begin in 1985, will ensure that taxpayers are not forced into higher tax brackets by inflation.
- Business tax rates have been substantially reduced through accelerated depreciation, which will help spur investment as the economy recovers.
- President Reagan has pledged to veto attempts by Congress to increase taxes on Americans through repeal or postponement of either the third year of the tax rate cut or indexing.

**o Reduce unnecessary regulation.**

- Task force under direction of the Vice President has pared unnecessary regulations that would have imposed on the economy an additional one-time investment cost of as much as \$11 billion and annually recurring costs of \$6 billion.
- These savings will free capital to go into job-creating and productivity-enhancing investments.

-- Prime example: Decontrol of oil prices, which has helped bring the country its lowest gasoline prices in three years. Consumers and businesses have benefited, meaning that more money can now go to job-creation and less to OPEC.

o Support stable and moderate monetary growth.

-- Needed to keep inflation and interest rates down.

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### THE PRESIDENT'S BUDGET FREEZE AND REFORM PLAN

#### o Key points:

- Maintains and advances President's Economic Recovery Program.
- Results in almost no real growth in the 1984 budget.
- Saves at least \$303 billion in budget outlays over 1984-1988 -- even more if the economy grows faster.
- Reduces spending from 25.1% of GNP in 1983 to 22.9% of GNP in 1988.
- Preserves necessary spending for those in need.
- Maintains essential defense build-up at \$55 billion lower 5-year cost.

#### o Budget totals at a glance:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Outlays	809	844	917	988	1058	1125
Receipts	<u>598</u>	<u>654</u>	<u>732</u>	<u>844</u>	<u>921</u>	<u>1023</u>
Deficit	210	190	185	144	137	102

#### o Elements of the plan:

- 1984 spending freeze measures.
  - \* No increase in civilian military pay and retirement.
  - \* 6-month COLA freeze for Social Security and related indexed benefits.
  - \* Freeze on aggregate non-defense discretionary programs, medical provider reimbursement and farm price supports.
- Long-term structural reform.
  - \* Bi-partisan Social Security Solvency Plan which cuts \$79 billion from 1984-88 spending-revenue gap.
  - \* Health care reform and efficiency incentive package involving \$58 billion in 5-year savings from Medicare/Medicaid and private health insurance cap.

\* Major reforms of civil service retirement; better targeting of means-tested entitlements and veterans benefits.

-- Maintenance of defense build-up at lower cost.

\* \$55 billion in pay, fuel, inflation and program economies and savings over 5 years.

\* Fully protects strategic programs, readiness and sustainability initiatives and conventional forces modernization.

-- Contingency tax increase proposal.

\* Standby tax equal to a 5% surcharge on 1% of corporate and individual tax liability and a \$5 per barrel oil excise tax.

\* Triggered in FY 1986-88 ONLY IF budget freeze and spending reforms are adopted, deficit is above 2.5% of GNP, and economy is in recovery.

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## ECONOMIC PROGRESS: TO DATE

o Inflation

- The inflation rate averaged 12.9% in 1979-1980.
- Inflation fell to 8.9% in 1981 and to 3.9% in 1982 -- the lowest level in a decade.
- Prices are virtually unchanged over the last five months.
- Gasoline prices are at their lowest point in three years.
- As a result, a median-income family with a fixed income has \$1850 more in purchasing power than they would have had inflation remained at the 1979-1980 level; a poverty-level family living on a fixed income has \$753 more in purchasing power than they would have.

o Interest rates.

- The prime rate.
  - \* Hit 21.5% in January 1981.
  - \* Is now down to 10.5% -- a cut of more than half -- and the lowest level since October 1978.
- 90-day Treasury bills.
  - \* 11.4% in 1980, peaking at 16.3 in May 1981.
  - \* Now down to 8.4%, a decline of nearly one half.
- Home mortgage rate.
  - \* Heading upward from 12.7% in 1980 to 14.7% in 1981 to peak of 15.9% in May 1982.
  - \* Has now gone down for eight of last nine months, and is at two-and-a-half-year low, reducing monthly cost of \$50,000 mortgage by \$200 over last year's peak rate.

o Average real hourly earnings.

- Fell by 8.5% from 1978 to 1981.
- Rose in 1982 for first time in four years.

o Savings rate.

- Declined by nearly one-sixth from 1976 to 1980.

- Rose in both 1981 and 1982.
- 1982 rate of 6.5% is highest since 1976.

o Productivity.

- Fell in each of 1979 and 1980.
- Rose in each of 1981 and 1982, reaching an all-time high.

o Stock market.

- Market-level (Dow-Jones industrial average) in every year from 1977 to 1980 was lower than 1976 level.
- Market reached all-time high in March 1983, one-third higher than 1980 level, and up by one-half since just last August.

o Unemployment.

- Unemployment had been rising almost steadily since mid-1979.
- Through February, initial unemployment claims had been declining for 4 of the last 5 weeks.
- The unemployment rate has declined a full one-half point in the last three months. While it may fluctuate somewhat for a few months, the peak has clearly been reached.

o Economic recovery is here. There are clear signs that the economy is turning around, and that the recession is nearly over:

- The economy grew at a brisk 3.1% in the first quarter of 1983 -- the largest quarterly rise in 2 years.
- The index of leading indicators has risen for six consecutive months -- up 3.5% in January, the biggest gain in 33 years, and up another 1.4% in February another strong gain.
- Industrial production rose 1.3% in January -- the largest increase in a year, and rose again in February for the third consecutive monthly increase.
- The housing sector is already experiencing strong recovery.

\* New housing starts in February were twice their October 1981 low, bringing housing starts to their highest level since September 1979.

- \* Permits more than doubled over the same period.
- \* New home sales have grown by 63.2% since April 1982.
- \* In January, inventories of unsold homes have recently hit their lowest levels recorded in more than a decade.

-- Automobile sector.

\* Auto sales for the first 10 days of April were up 32.5% (adjusted) over the same period last year.

\* Auto production is scheduled to rise 20% (not annualized) in the first quarter of 1983.

-- Also important non-auto groups such as durable goods and clothing have turned up in the fourth quarter.

-- Profit margins in the non-financial corporate sector increased at an average annual rate of about 7.6% in the second half of 1982, reflecting a better alignment of costs and prices.

-- The sharp inventory liquidation in the fourth quarter of last year sets the stage for strong recovery in 1983. As retail sales continue to improve, businesses will increase production and employment to meet rising demand.

#

ECONOMIC PROGRESS: THE FUTURE

o The recovery.

-- Economic growth.

- \* The economy should grow at least 4.3% in real terms in 1983, and 4% each year thereafter through 1988.
- \* This is a cautious forecast; some economists think the economy will grow much more rapidly.
- \* Still, such a recovery is in sharp comparison to most previous recoveries, which did not last.
  - Late 1980 "recovery" lasted only a few months.
  - 1970 recovery lasted only three years.
  - 1958 recovery lasted only two years.

-- Unemployment.

- \* Unemployment rate should fall steadily from 10.0% in 1983 to 9.1% in 1984 to 6.2% by 1988.
- \* This recovery will create at least 15 million new jobs by the end of 1988.
  - This compares very favorably with the 21 million new jobs throughout all of the 1970s.
  - Under the Administration's economic assumptions, there will be 2.6 million new jobs this year, and another 2.6 million in 1984, for a total of 5.2 million new jobs by the end of 1984.

o Inflation.

- Inflation (CPI) should remain at or below 5% every year through 1988, and will be trending downward.
- \* The inflation rate has not remained at or below 5% for more than two years running since the 1960s.
- In fact, the only other two postwar recoveries lasting as much as 5 years or more brought with them huge jumps in inflation.

\* During the 1975-1979 recovery, (actually 4 years and 9 months long), inflation rose from 4.8% in 1976 to 13.3% in 1979.

\* During the 1961-1969 recovery, inflation rose from less than 1% in 1961 to 6.1% in 1969.

o Interest rates.

-- The 90-day Treasury bill rate should trend downward from 8.0% in 1983 to 6.1% in 1988.

#

1. Doesn't the Reagan budget cut back sharply on programs for the poor?

o The budget totals are more than sufficient.

-- The 1984 budget contains one-half trillion dollars for non-defense spending other than interest.

\* In constant terms that is almost identical to the 1981 level, and 88% higher than in 1970.

\* Any budget that spends nearly twice as much as in 1970 after adjusting for inflation cannot be neglecting domestic welfare entirely.

-- Arguments can be made about the allocation of monies among these programs, but there is no overall inadequacy of funds.

\* Of the half-trillion in non-defense spending, \$424 billion is for transfer payments and social programs.

\* The estimated number of elderly, non-elderly poor and non-poor unemployed is 65 million.

\* Thus, one way of viewing the budget is that the \$424 billion works out to \$6500 per person and \$26,000 per family of four for these categories of citizens.

- While this is not a precise measure of assistance per person or family, it gives an idea of the huge domestic spending total.

- If too little of this money is reaching the needy, it is the fault of the distribution system, and not the lack of money.

o Funding for key social programs is sufficient.

-- Spending proposed in the FY 1984 budget for 15 key social programs<sup>1</sup> -- \$356.3 billion -- is 45% higher than the amount spent on the same programs in 1980.

-- Adjusted for inflation, the proposed spending levels are:

\* About 11% higher than in 1980.

<sup>1</sup> Elementary, secondary and vocational education; higher education; training and employment; social services; medicare; medicaid; social security; unemployment compensation; housing assistance; food stamps; child nutrition; AFDC; SSI; energy assistance; earned income tax credit.



- \* About 4% higher than the average amount spent in the last four years.
- \* Within 1% of the FY 1984 levels proposed by President Carter for the 15 programs.
- \* Equal to or greater than the 1980 spending levels for each of the six largest spending programs, including medicare, medicaid, housing assistance and food stamps.

#

2. Why is it fair to make any cuts in programs for the poor?
- o Almost all programs for the poor spend significant amounts of money on the non-needy.
    - For example, of the \$47 billion in means-tested programs reflected in Census survey data for 1981, fully \$20 billion, or 42%, of those funds went to families whose total incomes, including in-kind benefits, were at or above 150% of the poverty line.
    - 150% of the poverty line in 1981 was \$13,930 for a family of four -- an income level equal to 92% of the median annual earnings of employed workers that year.
    - Thus, a large share of program beneficiaries were receiving nearly as much as or more than was earned by those who were being taxed to support them -- a truly unfair situation.
  - o Program changes made in the first two years of the Reagan Administration are designed to reduce or eliminate benefits to those who do not deserve them, and to target them instead to the truly needy.
    - In food stamps, Congress approved the Administration proposal to limit food stamp eligibility to families with incomes no higher than 130% of the poverty level.
    - In the school lunch program, the only significant change was to cut back sharply on the subsidy for meals served to children from middle- and upper-income families with incomes above 185% of the poverty level. Poor children continue to get their lunches free.
    - In student financial assistance programs, where wealthy parents could take out low-interest federal loans for their children and invest their own money in money market funds, aid has been more precisely targeted to the neediest. Families with annual incomes above \$30,000 are now required to demonstrate need for guaranteed student loans, and grants are more carefully directed to low-income students.
  - o In the 1984 budget, only 20% of the changes in 5 key means-tested entitlement accounts (AFDC, SSI, medicaid, food stamps and child nutrition) can be regarded as benefit reductions, in this effort to target funds more carefully.
    - The remaining 80% reflects program efficiencies and an attempt to reduce further the very high rate of errors -- people getting more benefits than they are legally entitled to.

o But also have to also look beyond program changes to overall economic effect.

-- What is fair about inflation?

\* It robs everyone, particularly the elderly with fixed incomes and the poor, of purchasing power.

\* During 1970s, AFDC benefits increased by one-third, but high inflation meant that AFDC families had 30% less purchasing power.

-- What is fair about the unemployment that has risen as the federal government has absorbed more of private production?

#

3. Why have only programs for the poor been cut?

o Programs assisting the poor are called upon to bear only a fair share of budget restraint.

- These programs rose most rapidly in the 1970s, jumping 2-1/2 times in real terms.
- Human resource programs comprise 85% of the non-defense, non-interest budget, and therefore must be the subject of a majority of the budget changes.
- But reductions in budget growth in these programs have been designed to reduce or eliminate benefits to those who do not deserve them, while preserving aid to the needy.
- Thus, reductions in program levels do not mean reductions in aid to the poor, but instead only a restoration of programs to their intended purpose.

o The 1984 budget proposes significant savings in programs other than those that are intended to aid the poor.

- \$55 billion in savings in defense for 1984-1988.
- Freeze on farm price supports.
- No increase in government employees' pay.
- Further reductions in subsidies for Amtrak and wasteful and uneconomic energy projects.

o This follows upon several similar changes in the past two years.

- Cut in the postal subsidy, except for charitable and other special groups.
- Ending of direct government involvement, with budgetary dollars, in synfuels.
- Reduction in the dairy subsidy level for the first time.
- Reduction in "impact" education aid (much of which went to wealthy communities) for the first time -- tried by every previous President since Eisenhower.

- Ending of twice-a-year COLA indexing for federal and military retirees.
- Cutback in subsidies for Amtrak so passengers must now cover half of the cost.
- Reform of the wasteful sewage treatment grant program to confine it to plants that actually clean up adjacent waters, at a savings of more than \$1 billion per year.

#

4. But in a recession, shouldn't we pay special attention to the needs of the poor?
- o We have paid special attention to the needs of the poor.
    - The truly needy have been protected. Benefits to households that participate in a single program and have no other sources of support are largely unaffected.
    - Targeting benefits more carefully to the needy has helped poor beneficiaries. In spite of the difficult economic situation, 22 states increased their AFDC payment in 1982.
    - The unemployed have been protected. President Reagan has three times supported extension of unemployment benefits during this recession.
    - The working poor have not been discouraged from working. Studies on AFDC in several states show that the number of working recipients who have quit their jobs to retain their benefits is very small -- about 10% (which itself may be overstated, since many of those "quitting" actually lost their jobs).
  - o The FY 1984 budget, even under the domestic freeze, reflects this concern for the poor.
    - 2.1 million people will be served in 1984 under the Women, Infants, and Children (WIC) program, or 12% more than in the Carter 1980 budget -- and 82% more than in 1978.
    - Head Start funding is up 6%, with 29,000 more slots than in 1983.
    - SSI benefits for 3.4 million elderly, blind and disabled will be increased by a total of \$341 million as a result of the Administration's proposed legislation.
    - Nearly 4 million families will live in assisted housing units supported by the 1984 budget; this is 250,000 more families than in 1983, 650,000 more than in 1981, and 3 million more than in 1970.
    - In the food stamps program (excluding Puerto Rico), 22 million persons will receive average assistance of \$462 per year, compared to 21.1 million recipients in 1980 and only 15.3 million beneficiaries in the 1975 recession.

#

5. Doesn't the recession prove that Reaganomics has failed?
- o The recession statistically began in July 1981 -- three months before the President's Economic Recovery Plan had taken effect.
  - o The recession, in practical if not strictly economic terms, was with us since 1979:
    - The unemployment rate had been trending steadily higher, and averaged 7.1% from mid-1979 to the beginning of 1982.
    - The monthly prime rate had not fallen below 10% since 1978, and between January 1979 and December 1981 it averaged 15.6%.
    - Real output increased at only a 0.1% annual rate from the first quarter of 1979 to the first quarter of 1982.
    - The level of industrial production declined 7.4% between January 1979 and January 1982.
    - Real after-tax corporate profits declined 43% from the first quarter of 1979 to the first quarter of 1982.
  - o In fact, this recession was an inevitable result of past inflationary policies.
    - Sharp rises in unemployment have followed each burst of inflation.
      - \* From 1967 to 1970, the inflation rate more than doubled, rising from below 3% to 5.9%; by 1971, the unemployment rate had climbed to nearly 6%, rising from about 3-1/2% in both 1968 and 1969.
      - \* From 1972 to 1974, the inflation rate more than tripled, from 3.3% to 11.0%, and the unemployment rate rose the next year to 8.5%, rising from a pre-recession low of 4.9% in 1973.
      - \* From 1976 to 1979, the inflation rate doubled, rising from 5.8% to 11.3%, and the unemployment rate climbed the next year to a high of 7.1%, rising from a 1978-79 average of 6%.
    - The present situation is no different.
      - \* From 1976 to 1980, the inflation rate more than doubled from 5.8% to 13.5%.

\* The subsequent rise in unemployment by one-half from 7.2% to a peak of 10.8%, is, in fact, somewhat less than the average proportional rise for previous postwar recessions.

o Only way to permanently pull us out of recession: keep tax rate cuts in place and work to further reduce spending growth.

-- Higher tax rates would only depress economy and slow the recovery.

-- Failing to control spending growth would let the federal government absorb more of scarce capital, thus preventing business from expanding and the economy from rebounding.

#



6. What is Reagan doing to help the unemployed?

o Promoting a policy of long-term economic growth -- the key to getting Americans back to work.

-- Underlying strength of economy, even in recession, is great enough to provide work for more than 99 million Americans.

\* This, despite fact that economy has been virtually stagnant since 1979.

-- The President's forecast of moderate, sustained growth (4.3% in 1983, 4% each year in 1984-1988) will raise employment by more than 15 million by the end of 1988 -- and by 5.2 million just by the end of next year.

o For the short-term: a bipartisan bill with three major provisions signed into law by the President.

-- \$4.4 billion in accelerated funding of construction projects already in the budget.

\* Because the expenditures are already planned, total federal spending over the next few years will not be increased -- but the jobs will be provided now, when they are needed.

\* These will not be make-work jobs, but jobs in projects previously determined to be necessary.

-- \$2.8 billion for funding of supplementary unemployment insurance benefits through the end of FY 1983.

-- \$216 million for humanitarian assistance for the unemployed.

o For the long-term: the President's Employment Act of 1983 and other employment initiatives.

-- Employment Act of 1983.

\* Employment vouchers for long-term unemployed, granting employers a tax credit for each new hire of previously long-term unemployed workers. This proposal could help up to 700,000 unemployed persons get jobs.

\* Youth employment opportunity wage (\$2.50) for summer work -- could open up additional 150,000 to 640,000 jobs.

-- Initiatives to help young persons:

- \* Continued funding of the federal summer jobs program, expected to provide more than 800,000 jobs in 1983.
- \* Continued funding of the Job Corps, with good record of training disadvantaged young people, will serve another 80,000.

-- Training: The block grant for training under the President's Job Training Partnership Act will provide real skills for real jobs for at least one million young and poor people each year.

-- Displaced workers: President has asked for a doubling of amounts for training and relocation assistance, to help almost 100,000 workers.

-- Enterprise zones: To stimulate economic activity and create jobs in depressed urban and rural areas.

-- In all, more than 3 million people will be helped by these current and proposed programs.

o Key steps already taken.

- Passage, with the President's active support, of Job Training Partnership Act last year.
- Three extensions of unemployment benefits.
- Passage of Export Trading Company Act, expected to help create 300,000 new private sector jobs.

#

7. But why does the President oppose real jobs bills?

o The federal government cannot create jobs.

- The federal government has no resources of its own; it must take the money from the private sector through either borrowing or taxes.
- Thus the government destroys private jobs in its process of "creating" public jobs; since federal jobs are far more costly, the number of jobs lost is greater than those generated.
- Make-work jobs are especially wasteful, since they produce little of value to society.

o History proves the federal government cannot create jobs.

- The Works Progress Administration employed a total of 8 million people between 1935 and 1943, but put many to "work" putting on plays and painting murals. In the end, it took World War II to end the Great Depression.
- The \$6 billion Local Public Works program, intended to ease the 1974-75 recession, did not peak until 1978, three years after the bottom of the recession.
  - \* A 1979 OMB study found that only 12% of the jobs "created," and only 2% of the funding, went to persons previously unemployed,
- CETA program spent \$57 billion over eight years, yet only 30% of participants were ever placed in unsubsidized jobs, and only half of these in private sector jobs.

o Economic growth is far more effective.

- Growth will create 5.2 million new jobs by the end of next year.
- By contrast, the "jobs bill" considered last December would have "created" a mere 300,000 public jobs, while destroying an even greater number of private sector jobs.

#

8. Hasn't Reaganomics increased infant mortality?

o The assertion is absolutely, totally, and completely false.

o The infant mortality rate continues to decline.

-- The rate dropped from 20 per thousand in 1970 to 12.6 per thousand in 1980 -- major, welcome, sound progress.

-- In 1981, it dropped further -- to 11.8.

-- And in 1982, it dropped once again -- to 11.2 -- a decline of 4%.

-- For decades, infant mortality has been declining for a number of reasons, such as better health care, improved nutrition and higher living standards. Only recently have federal programs like the Women, Infants and Children (WIC) program contributed to this long-standing trend.

o Charges that the infant mortality rate (IMR) is increasing are based on a misinterpretation of the data.

-- It is true that a popular survey reported that 7 states experienced increases in IMR in 1981.

\* But from 1970-1980, when the national IMR fell 38%, an average of 12 states each year showed an increase.

\* And they were different states each year -- every state showed a decline over the decade.

\* Increases in some states in 1981 therefore reflect normal statistical variation.

-- It is true that some cities experienced increases in IMR in 1981.

\* The "Food Research and Action Center" survey is based on data from 34 cities and rural counties out of total of 3800 U.S. cities and counties -- far too small a sample to be reliable.

\* Percentage increases are wildly distorted.

- Lackawanna, New York's, 50% increase in IMR represented a rise of just 3 infant deaths.

- In Youngstown, Ohio and Galveston, Texas, the numbers of infant deaths was constant, but there were fewer births, so the mortality rate rose.
- There is no evidence that these statistically insignificant changes were correlated with poverty or any other cause.
- \* Of the 10 metropolitan areas with the highest unemployment rates, six reported declines or no change in infant mortality rates from 1980 to 1981.

#

9. Shouldn't we eliminate the third year of the 1981 tax rate cut, as well as indexing, in order to add a measure of fairness to the President's economic policies.
- o Even with the President's tax reduction proposal in place, taxes will rise an average of \$36 per year (from 1980 to 1988) for a family earning \$10,000 per year. (Note: the average tax increase for a \$40,000 family will be \$340, or nine times as great.)
  - o The third year and indexing are the only real hope for the lower- and middle-income families.
    - More than 40% of these families' tax cuts come in the third year, compared to 5% for the wealthy.
    - Indexing keeps low- and middle-income families from being pushed into higher tax brackets because of inflation; because the wealthy are already in the top tax bracket, indexing is of no real consequence to them.
  - o Eliminating both the third year of the tax rate cut and indexing would boost taxes even more on low- and middle-income families.
    - The annual increase in taxes would be \$316 in 1988 for a \$10,000 per year family, and \$2423 in 1988 for a middle-income (\$40,000) family.
    - The only families who would not be affected very much by repealing the third year of the tax cut would be those with six-figure incomes, who already received their major tax benefits from the reduction of the top bracket from 70 to 50 percent.
      - \* For instance, 78% of the tax increase from repealing indexing would fall on those earning less than \$50,000.
  - o Eliminating the third year of the tax rate cut and/or indexing would also increase the economy's tax burden.
    - This would slow down the economy, as tax increases have done in the past, and thus:
    - Make it more difficult for unemployed low- and middle-income Americans to find a job, or for those who are underemployed to move up the income ladder and escape poverty.
      - \* Example: From 1959-1969, the number of families living in poverty dropped nearly 50%; from 1969-79, when the economy was growing more slowly, the number of poor families dropped only 6%.

#

10. But indexing is such an enormous raid on the Treasury. Shouldn't it be repealed in order to preserve the tax base, or at least be postponed until the budget is balanced?
- o The notion that indexing is a "raid on the Treasury" rests on two false premises:
    - That all income produced belongs to the government, and the people are entitled to only what the government lets them keep.
    - That the government should raise revenue by any means possible.
  - o In fact, raising taxes through inflation, which indexing will prevent, is a dishonest means of raising taxes.
    - At present, when taxpayers receive cost-of-living increases that just keep them even with inflation, they are forced into higher tax brackets, and pay higher tax rates on the same real income.
    - Government thus profits from inflation; for every 10% increase in income, government gets 17% more in receipts.
    - In this way, politicians receive increased taxes to spend, year-after-year, without ever having to explicitly vote for those tax increases -- politicians are not held accountable.
    - Politicians can also win voter favor by voting so-called "tax cuts" that are actually only reductions in the growth of taxes, and fail to offset inflation-induced tax increases.
  - o The repeal or postponement of indexing would have several harmful economic consequences.
    - It would greatly increase the economy's tax burden -- by \$44 billion in 1988 at presently projected inflation rates, by more than \$100 billion with double-digit inflation -- and thus push the economy back toward recession.
    - It would encourage inflation. Since inflation-induced revenues are greater with higher inflation, politicians would be less inclined to maintain strict anti-inflation policies if they knew higher inflation would bring them political benefits, including more revenues to spend and to use for periodic "tax cuts."
    - It would encourage increased federal spending. With the revenue reins once again loosened, Congress could easily return to its free-spending policies of the past.

- It would undermine the economic recovery. Repeal or delay of indexing would send a clear signal to the financial markets that inflation and unchecked spending were coming back. With that, interest rates would rise, investment and production would sag, and the recovery would be aborted.
- It would make it impossible to balance the budget. The higher spending and sluggish economy would guarantee that deficits would increase.
- These are some of the reasons why President Reagan has pledged to veto any attempt to repeal indexing or postpone its starting date.

#



11. Why is the defense budget exempt from budget cuts?

o Defense has not been exempt from cuts.

-- Since last year, the President's defense program has been reduced by more than \$74 billion:

\* Congress cut \$19.1 billion in 1983.

\* The President trimmed \$55 billion in his revised 1984-88 defense program.

-- The originally planned increase in defense spending above the last Carter five-year plan (1982-86), judged inadequate by all, has been reduced by \$66 billion, or by more than one-half (57%).

-- Real defense growth will average only 6.6% for 1984-88.

o What increases remain merely compensate for a decade of neglect.

-- From 1970 to 1981, national defense spending declined 15.2% in real terms, while non-defense spending almost doubled in real terms.

-- By 1988, national defense will rise to only 7.9% of GNP, still below the pre-Vietnam 1964 level of 8.3%, but substantially above the 1978-79 low of 5% of GNP.

-- By 1988, national defense will comprise 34.2% of total budget outlays, still below the pre-Vietnam 1964 level of 43.5%, but substantially above the 1980 low of 23.6% of outlays.

o These increases are necessary.

-- From 1970 to 1981, the Soviets out-invested the U.S. in defense by about half a trillion dollars in constant 1984 dollars.

-- In 1981, the Soviets out-invested the U.S. by about two-thirds.

-- Even with the President's new 1984-88 Five-Year Defense Plan, the Soviets will continue to out-invest the U.S. by a substantial margin.

\* U.S. tank production will equal less than 40% of estimated Soviet production.

\* U.S. combat aircraft production will equal less than 50% of estimated Soviet production.

\* U.S. major surface ship construction will equal about one-third of Soviet construction.

#

12. Isn't the Democratic budget a more compassionate alternative for achieving the President's objective of economic recovery and budget control?

o The Democratic House Budget Committee voted out a budget plan for fiscal 1984 and beyond that would undo the gains made by President Reagan in the last two years.

-- From 1984-88, this plan would:

\* Raise taxes by \$315 billion;

\* Raise non-defense spending \$192 billion (excluding interest);

\* Cut defense spending \$160 billion (\$208 billion in spending authority).

-- Passage of such a budget would reverse the progress president Reagan has made in restraining the growth of government spending and taxing.

-- It would undermine economic recovery just as it gets underway by raising taxes and starting a new round of virtually uncontrolled federal domestic spending.

-- It would send all the wrong signals to allies and potential adversaries about the strength of American resolve to rebuild its military capacity.

-- It is what the Washington Post called an "old-fashioned Democratic budget." It would raise taxes and cut needed defense modernization funds and use most of the money to pay for a new surge in domestic social spending.

o The Democratic budget is a bad tax plan.

-- It would require cancellation of the third year of the tax rate cut and of indexing -- raising taxes for families earning under \$50,000 by about \$200 billion by 1988.

-- It would cost the typical family an average of \$3550 in higher taxes through 1988.

-- It would repeal 42 percent of the tax savings secured by President Reagan.

-- It is nothing more than an effort to take and spend more of people's money -- just the opposite of what the President has been trying to do.

o The Democratic budget is a bad social spending plan.

- Non-defense spending next year would be \$40 billion more than the bloated levels of the Carter Administration's 1981 budget.
- This liberal Democratic budget plan would eliminate most of the gains made in the last two years in bringing spending under control.
  - \* Hard-won reforms in social programs have made it possible to limit their budget growth without hurting those who really need the benefits.
  - \* The Democratic budget ignores those reforms and returns to throwing dollars at problems.
  - \* For example: it would repeal nearly \$5 billion in food stamp and welfare reforms and refuses even to consider Administration initiatives to reduce food stamp error rates despite documented evidence that food stamp fraud and abuse costs nearly \$1 billion per year.

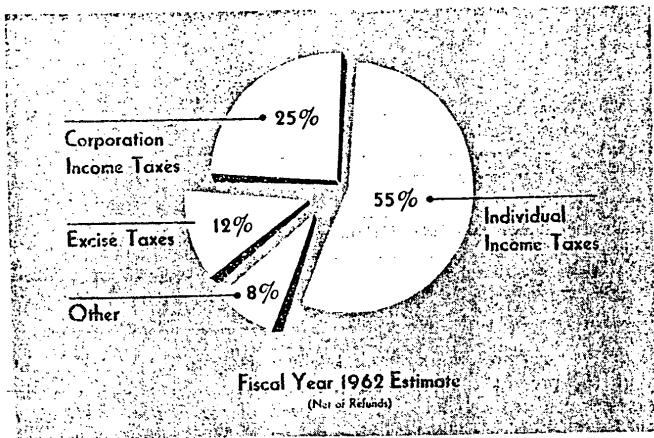
o The Democratic budget is a bad defense plan.

- The budget would gut the President's program to rebuild U.S. defenses and, according to the Congressional Budget Office, allow only about 3 percent real growth in the defense program over the next five years -- far from enough to make up for a decade and more of past neglect.
- Because much defense spending is already locked in place -- for pay and retirement operations and maintenance, and the like (including critical readiness programs) -- the effect of the Democratic leaders' proposed cuts would be a one-third reduction in weapons modernization.
  - \* An average \$40 billion a year reduction in defense programs would cut into the bone of some of the United States' most important defense initiatives.

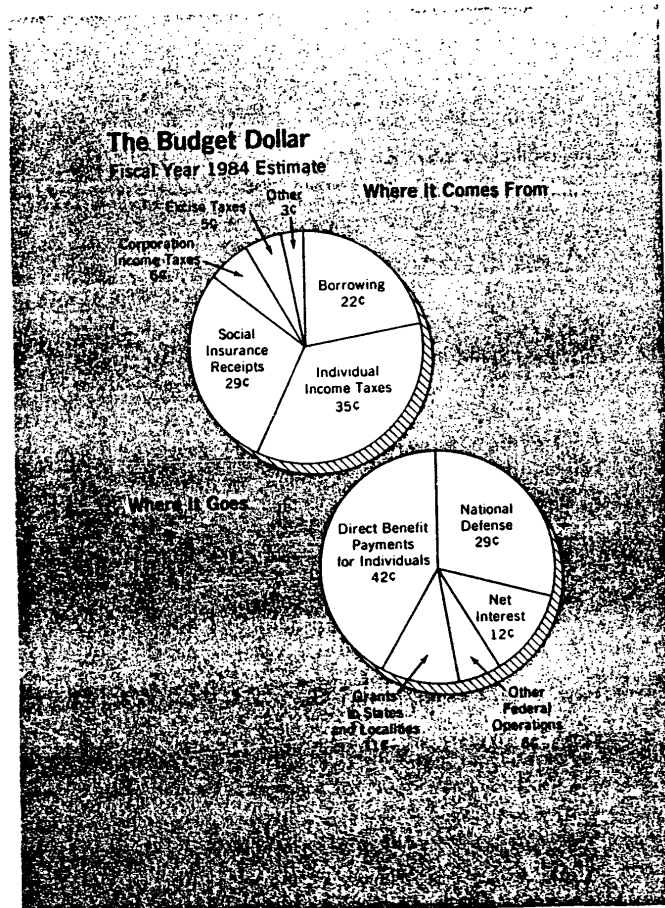
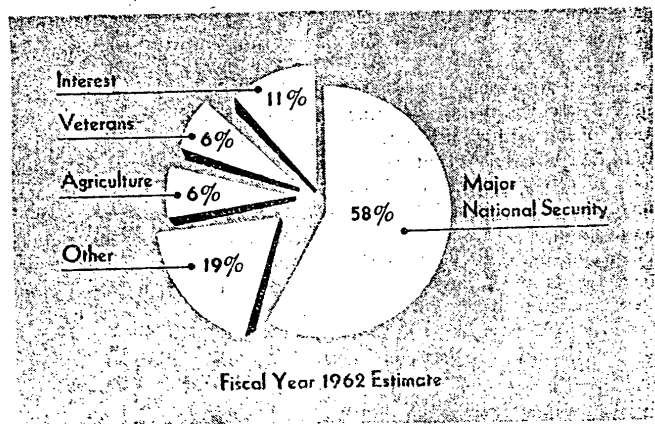
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**BUDGET TOTALS—1962**

**SOURCES OF BUDGET RECEIPTS**



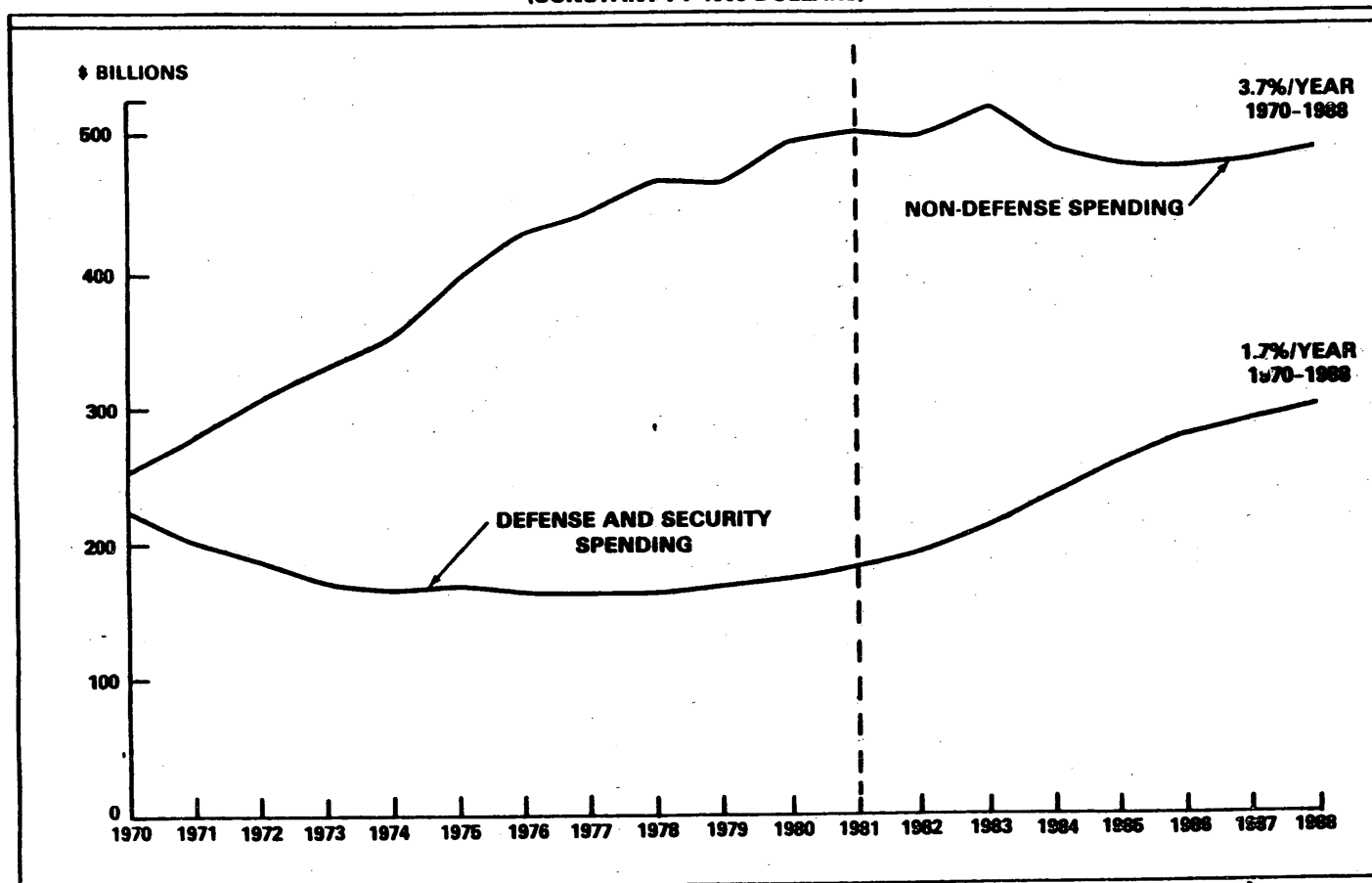
**PURPOSES OF BUDGET EXPENDITURES**



Budget Program and Trends

## BUDGET PRIORITIES SHIFT IN HISTORICAL PERSPECTIVE

(CONSTANT FY 1983 DOLLARS)



MILITARY RETIRED PAY INCLUDED IN NON-DEFENSE SPENDING  
NONDEFENSE SPENDING EXCLUDES NET INTEREST

## AID TO FAMILIES WITH DEPENDENT CHILDREN

### History.

Aid to Dependent Children (ADC) was first authorized under the Social Security Act of 1935. It made federal funds available to states to help support needy children deprived of normal parental support because of the parent's death, incapacity or absence from the home. Payments were made for the support of the child, not for the person caring for the child.

In 1950, Congress authorized ADC payments not only to needy children but also to the adult caring for the child. In 1962, congress authorized payments even if both parents were present but were unemployed, and the program was renamed Aid to Families with Dependent Children (AFDC).

### o The program.

- In order to qualify for AFDC, some adult recipients must enroll in a job-training program. While in the program, participants have the option of placing their small children in day care centers or leaving them in the care of friends, relatives, or neighbors.
- Benefit levels are determined by each state, with the federal government paying 50 to 77% of the costs of benefits and 50% of the cost of state and local administration. With the exception of California, benefit levels are not indexed to the inflation rate.

### o Coverage.

- In 1950, 651,000 families received ADC benefits. By 1980, 3,642,000 families were receiving AFDC benefits, representing a nearly six-fold increase in the number of recipients in just thirty years.
- In 1960, the average monthly benefit was \$115 per family; in 1980 it was \$276.
- In 1980, benefits ranged from \$140 for a family of four in Texas to \$569 in Oregon.

### o Costs.

- It took 25 years -- from 1935 to 1960 -- for AFDC to reach the billion-dollar expenditure level.
- By 1967 -- only seven years later -- the cost of the program had doubled to \$2.3 billion, and in 1968 alone, benefit costs rose by another half-billion.

- By 1980, the program had reached \$11.3 billion in combined state and federal costs for benefits, and in FY 1982 it cost \$11.9 billion.

o Administration Action to Date.

-- For FY 1982:

\* President Carter had proposed:

- \$7.7 billion in outlays, including \$0.5 billion in net savings.
- Standardized disregards and monthly retrospective accounting to improve program administration.

\* President Reagan proposed:

- \$6.8 billion in outlays, including \$1.2 billion in savings.
- Comprehensive program to restore AFDC to original purpose as temporary safety net. Included Carter proposals plus time limits on earnings disregards, more comprehensive and effective work requirements, and many other overdue changes.
- More equitable balancing of federal state child support financing arrangements, and related reforms to increase collections from absent parents.

\* Congress approved:

- \$8.0 billion in outlays (increase due to change in economic conditions).
- 90% of President Reagan's AFDC/CSE reform package, totalling nearly \$2 billion in annual federal/state savings.

-- For FY 1983:

\* President Reagan proposed:

- \$6.8 billion in outlays, including \$1.4 billion in savings.
- Further reforms designed to more fully count income and resources available to the AFDC family, tougher work requirements, phase-in of state liability for erroneous payments, and consolidation of administrative costs for AFDC, Food Stamps, and Medicaid.

- Comprehensive restructuring of child support enforcement financing arrangements, designed to strengthen family responsibility and reduce welfare dependency.

\* Congress approved:

- \$8.2 billion in outlays (increase due to rejection of legislative proposals and change in economic conditions).
- Modest changes in AFDC eligibility rules, increased state liability for erroneous payments, and selected child support improvements.

-- Specific reforms.

- \* Over the past two years, the President has proposed, and Congress enacted, a variety of long-overdue changes in AFDC. These changes were designed to help ease severe budget constraints facing all levels of government, and to restore AFDC as a program of last resort for those who must rely on it for limited time periods.

\* Among the key changes:

- Including income and resources available to a family but not previously counted by AFDC. For example, the income of step-parents living in the same household as the AFDC family is now counted.
- Targeting assistance on those in greatest need. Gross income eligibility limits and other benefit caps have been enacted.
- Strengthening work requirements and enhancing the employability of AFDC recipients. States may now establish Community Work Experience programs, in which recipients receive training and work experience while performing useful public tasks.
- Improving program administration. Stricter accounting procedures have been introduced, and recovery of all overpayments has been made mandatory.

- \* These changes have resulted in more than \$2 billion in annual federal and state AFDC savings, and have substantially restored AFDC to its originally intended purpose.



**The President's Proposals for FY 1984.**

- Require the states to establish workfare programs to assure that the AFDC recipients perform useful tasks in the public sector when private sector jobs are unavailable, and to provide recipients with work experience that can help them ultimately find jobs in the private sector.
- End employable parent's benefit when youngest child reaches 16.
- Correspondingly reduce estimated shelter and utility costs in calculation of assistance needs for AFDC families to the extent that these costs are shared with other people who live in the same household as the AFDC family.
- Include all sources of income (such as that of parents and minor children), available to AFDC recipients when determining the amount of benefits to be paid.
- Eliminate AFDC support for those families who are receiving help solely because the breadwinner's occupation requires that he or she live and work away from the home for certain periods of time.
- Permit states to require AFDC recipients whose youngest child is age 3 to 6 to register for work if child care is available.
- Require states to adopt and enforce better child support laws and procedures, including mandatory wage assignments, state income tax refund offsets, and use of quasi-judicial and administrative procedures for establishing paternity and support orders.
- Restructure federal matching payments for child support enforcement collections to provide incentives for improved state and local collection performance.
- Seek no further funding of the work incentives program, (WIN).

**Justification (General).**

- These changes would ensure that federal resources are targeted on the neediest, and that individuals and families who are able to support themselves do not continue to rely on public assistance.
- These changes would save federal taxpayers an estimated \$732 million in FY 1984, and \$4.5 billion over the next five years.

- o The states will save an additional amount equal to about 85% of the federal savings, or \$600 million in FY 1984, and \$3.8 billion over the next five years.

**Justification (Specific).**

- o Requiring workfare.

- Those who are able to work should be required to do so, and should not expect to receive aid if they refuse to help themselves by accepting work.
- Workfare better enables welfare recipients to eventually find work in the private sector by giving them actual work experience, a chance to develop good work habits, and useful training.
- States now have the option to establish Community Work Experience programs (CWEP) and mandatory job search requirements, but only half the states have done so, even on a limited basis.

- o Ending employable parent's benefits when the youngest child reaches age 16.

- Since the parent's presence in the home is no longer essential once the child reaches age 16, the employable adult should be expected to seek work rather than relying on public assistance.
- The child's benefits would not be affected.

- o Prorate shelter and utility costs among all persons living together in housing unit.

- Resources of all persons living together in a housing unit are available to meet the household's living expenses, and should be taken into account in calculating assistance needs.
- For example, an unemployed mother with small children may live in her parents' home -- in which case she does not have the same need for housing assistance as a woman in similar circumstances who must rent an apartment.

- o Include all resources available to recipients.

- At present, the AFDC recipient family has the option of excluding certain of its resources (the earnings of a minor child for example) when calculating its income for the purposes of determining AFDC eligibility.
- These resources are available to help defray living expenses, and should be used toward that end.

- Counting the resources of all family members would ensure equitable treatment for families with similar needs.
- Individuals with separate supplemental security income (SSI) would continue to be excluded from the family, for purposes of eligibility determination.
- o Absence from home.
  - Welfare benefits should be focused on families that are unable to provide for themselves.
  - Currently, some families qualify solely because a parent is away from home due to job search or work-related activities, even though family ties and financial support continue.
  - Benefits in these cases are inappropriate, and should be discontinued.
- o Mothers with small children.
  - AFDC recipients should seek employment as soon as possible to help avoid long-term welfare dependency.
  - Available evidence indicates that mothers of small children can register for work if child-care services are available.
- o Child support.
  - Nine out of ten AFDC recipients have an absent parent who ought to be providing support. Yet only one-third of AFDC recipients are covered by court orders for support, and in half these cases few or no payments are actually made.
  - The taxpayer unfairly bears the cost when these parents abandon financial responsibility for their children.
  - The child support enforcement system is now less effective than it should be.
    - \* Many states have lax enforcement procedures.
    - \* Marginal state performance is currently rewarded. States need only collect 48¢ for each \$1 of administrative costs to "break even" from their perspective because, under current law, states pay only about 30% of child support enforcement costs, but retain more than 60% of collections.
  - By requiring states to adopt effective child-support laws, and promoting active state collection efforts, support for children will be increased.

- o Terminate funding for the work incentives program (WIN).
  - New work opportunities for welfare recipients created in the Omnibus Budget Reconciliation Act of 1981, including Community Work Experience Programs and Work Supplementation programs, combined with similar reforms proposed in the FY 1984 budget, make WIN unnecessary.
  - WIN has not proven to be successful in quickly moving AFDC recipients to permanent, private sector jobs.

Question & Answers.

- o Denying assistance to the truly needy. Won't the truly needy be discouraged from seeking assistance as a result of the Reagan proposals?
  - The truly needy would still be able to collect their AFDC benefits under the Reagan proposals.
  - What the Administration's proposals would do is encourage recipients to look for work before applying for welfare benefits by requiring them to seek out private job prospects before becoming a recipient.
  - This should not be seen as an effort to dissuade truly needy individuals from seeking assistance, but rather as an incentive toward their becoming part of the workforce.
  - In fact, targeting benefits to reduce excessive costs seems to have positive results for poor beneficiaries. In spite of recent economic difficulties, 22 states increased their AFDC payment standards in 1982.
- o Driving the working poor onto the welfare rolls. Won't these budget savings be cancelled out if the working poor quit their jobs in order to keep the benefits they have been receiving?
  - Almost all the evidence to date shows that the number of recipients who have quit their jobs is very low.
    - \* Studies in Massachusetts, New Jersey, Vermont, Illinois, Michigan, New Mexico, and Los Angeles County all suggest that only about 10% of all families who left the rolls have returned, often because they had lost their jobs or had their hours of work reduced involuntarily.
    - \* Only a negligible number of recipients have voluntarily quit their jobs.
  - In almost all cases, the poor are financially better off -- from 60% to 150% better off -- by working than they would be if they quit their jobs.
  - Besides, the Reagan proposal requires employable adults to seek work in order to continue receiving their benefits; quitting work merely to receive benefits would not be an allowable option under the proposal.
- o Working for benefits. Isn't it unfair to force AFDC recipients to work for their benefits?
  - If they are able to work, then it is only fair that they do so in order to receive benefits.

- It is particularly unfair to tax low-income Americans to support beneficiaries able to work but refusing to do so.
- o Families living together. If economic conditions force two families to share an apartment, why should AFDC benefits be reduced?
  - It two families are sharing an apartment, both should be required to contribute to their combined living expenses.
  - Their living expenses are also proportionately less, because of economies in sharing quarters.
  - AFDC benefits should be provided only to the extent of need; it is better to target aid to those who are unable to meet their living expenses through any arrangement.

## CHILD HEALTH CARE

History

Federal efforts to provide for the health and well-being of children extend back to the New Deal period. Current efforts in this area are concentrated in two programs: Child Immunization, established in 1963 and Women, Infants and Children, established in 1974.

o Programs.-- Women, Infants and Children (WIC) nutrition program.

- \* This program provides supplemental nutrition assistance to pregnant women, nursing mothers, their babies and young children.
- \* From a cost of about \$14 million in 1974, the program has grown to a cost of nearly \$930 million in FY 1982 -- an increase of nearly seven times.
- \* WIC presently serves 2.2 million women and their infants and children.
- \* To be eligible, family's income must be below 185% of the poverty line.

-- Child Immunization program.

- \* This program began in 1963 to immunize children against childhood diseases.
- \* In 1981, 6.3 million children were vaccinated under this program.

o Administration Action to Date (WIC).-- For FY 1982:

- \* President Carter had proposed budget authority of \$1.1 billion.
- \* President Reagan proposed budget authority of \$725 million.
- \* Congress approved budget authority of \$934 million.

-- For FY 1983:

- \* President Reagan proposed:
  - Budget authority of \$730 million (implicit share for WIC in a proposed block grant). WIC budget amendment was transmitted in August for \$1.1 billion.

- Programmatic reforms: Consolidating WIC into an expanded HHS Maternal and Child Health Block Grant.

\* Congress approved:

- Budget authority of \$1.1 billion.
- No programmatic reforms.

o Administration Action to Date (Child Immunization program).

-- For FY 1982:

\* President Carter had proposed:

- \$37 million.
- Request designed to sustain childhood immunization program.

\* President Reagan proposed:

- \$18 million.
- Request designed to enable states to maintain their high immunization levels for most childhood diseases and control the spread of measles.

\* Congress approved:

- \$28 million.

-- For FY 1983:

\* President Reagan proposed:

- \$29 million.
- Request reflected success of efforts since 1977 to achieve a nationwide catch-up in raising immunization levels. Successful completion of federal/state/local catch-up efforts -- which had targeted a 90% immunization goal -- allowed federal support to level off in 1983 and focus on supplementing state efforts to cover the approximately 3.5 - 4.0 million children born each year, as well as boosters for the existing population.

\* Congress approved:

- \$39 million.
- Final FY 1983 level primarily reflected the need to offset 40% vaccine price increase during FY 1982, in order to maintain current immunization levels.



The President's Proposals for FY 1984.

o For WIC:

-- Fund WIC in FY 1984 at the FY 1983 level of \$1.1 billion.

o For Child Immunization:

-- Increase funding levels for FY 1984 to \$41.8 million.

Justification.

o For WIC:

-- WIC has grown explosively since its inception. As a result, the program has suffered from poor management and abuse. A stabilization period would encourage greater economy and administrative reforms.

o For Child Immunization:

-- The major catch up vaccination effort begun in 1977 has now largely succeeded and been completed; 96% of all children at school entry are now vaccinated.

-- The remaining task is to vaccinate children for the first time. The number of children reaching school age each year is approximately 3.5 to 4.0 million; the budget provides for this many.

Questions and Answers.

- o Is the WIC budget adequate? When inflation is taken into account, funding WIC at last year's level is the same as cutting the program. How can this be justified when unemployment is high and the number of eligible needy persons is bound to be greater?
  - The proposed level of budget authority would support a WIC caseload of more than 2.1 million recipients -- a level 12% higher than the caseload in the last year of the Carter Administration (when the unemployment rate was only about 3% lower than it presently is), and a level 82% higher than in 1978.
  - WIC unit costs can be reduced through program efficiencies. For example, states could substitute less expensive but equally nutritious foods in the WIC food package.
- o Infant mortality. How can present efforts in this area be considered sufficient when infant mortality is once more on the rise in this country?
  - The infant mortality rate (IMR) is not on the rise. On the contrary it is continuing to decline.
    - \* The IMR dropped from 20 per thousand in 1979 to 12.5 per thousand in 1980.
    - \* In 1981 it dropped further -- to 11.7.
    - \* And in 1982 it dropped again -- to 11.2.
  - News reports contending that the IMR is on the rise are incorrect.
    - \* These reports were based on press release by a group called the Food Research and Action Center (FRAC).
    - \* The FRAC analysis is flawed in several respects.
      - FRAC cited seven states that experienced increases in IMR in 1981. But in the 1970s, when the national rate dropped every year, the rate rose in an average of twelve states each year. Thus, the FRAC "evidence" is nothing but a normal statistical fluctuation.
      - FRAC also conducted a telephone poll in which it established that IMR had risen in 34 cities. But there are at least 3,800 cities and counties equivalent to the FRAC list in the U.S., so 34 -- or eight-tenths of one percent -- is hardly a reliable sample.

- FRAC failed to establish the alleged link between IMR and the recession; of the ten metropolitan areas with the highest unemployment rates, six reported declines or no change in IMR from 1980 to 1981.
  
- o Hospitalization savings. It has been documented that \$1 spent on the prenatal component of WIC saves \$3 in hospitalization costs due to decreased need to hospitalize infants after birth. Using the guide, couldn't any proposed "savings" from keeping spending level actually end up costing far more in hospital costs?
  - Services rendered, not just dollars spent, determines future hospitalization cost savings.
  
  - The proposed budget would serve 12% more women than in FY 1980.
  
- o Childhood diseases. Why is the Administration proposing to reduce the number of children being vaccinated from 1981 to 1984? Won't this increase the spread of childhood diseases, especially among the poor?
  - The child immunization program has succeeded in vaccinating 96% of the children at school entry in America from disease.
  
  - The remaining task is to vaccinate the 3.5 to 4.0 million children who come into the population next year, and the proposed budget fully provides for that.

#

## CHILD NUTRITION

History.

The federal government began donating surplus food for use in elementary and secondary school lunch programs in 1936. Since that time, child nutrition programs have evolved to the point where these are now five federally supported programs. In addition, children receive nutrition assistance through the Food Stamp and WIC programs, with estimated benefits of \$5.2 billion and \$706 million, respectively.

o Programs.-- School Lunch.

- \* By far the most significant and extensive child nutrition program. Schools participating in the program are required to operate it on a non-profit basis, and serve free or "reduced price" lunches to needy children. In return, the federal government makes cash payments and provides commodity assistance to the schools.
- \* In 1950, 7.8 million school children participated in the program. That number rose to 22 million in 1970, and to 27 million in 1980.
- \* Currently there is a three-tier price system for lunches:
  - Paid lunches are available to children from families whose incomes are 185% of poverty and above (50% of all participants), who must pay 82% of the cost of the meals.
  - Reduced price meals are available to children from families with incomes between 130% and 185% of poverty (about 7% of the participants), with the government paying approximately two-thirds of the cost of the meals.
  - Free (totally subsidized) lunches are available to children from families with incomes below 130% of poverty (about 43% of participants).

-- School Breakfast.

- \* In 1966 Congress established a pilot school breakfast program for schools with a high percentage of needy students who traveled long distances to school.
- \* In 1975 the program was made permanent and now provides paid, reduced price and free breakfasts to 3.4 million students.

-- Special Milk Program.

- \* This program was established in 1954 to help clear surplus milk from the market through government purchase and donation to schools.
- \* The program now subsidizes the cost of milk to schools that do not participate in other federally subsidized meal programs.
- \* Currently, more than 1 million students receive milk subsidies under this program.

-- Summer Food Service Program.

- \* Established in 1969 for summer school students attending public schools, this program fully subsidizes meals and supplements for students in program areas where 50% or more of the children qualify for free or reduced price lunches.

-- Child Care Feeding Program (CCFP).

- \* Established in 1975, this program subsidizes the feeding costs of children at day care centers, family day care homes, and outside school hours centers.
- \* The program currently serves more than 1 million children.

o Costs.

-- School Lunch Program:

- \* In 1950, the school lunch program cost the federal government \$120 million. By 1970, the program cost had more than doubled to \$300 million and by 1980 it had increased almost eight times to \$2.3 billion.
- \* Average federal meal costs in constant dollars rose from 31¢ in 1970 to 60¢ in 1981. During the same period, average student payments dropped from 60¢ to 34¢.

-- Other Programs:

	<u>Cost 1965</u>	<u>Cost 1975</u>	<u>Cost 1980</u>
School Breakfast .....	-0-	\$ 86 m.	\$288 m.
Special Milk Program ...	\$98 m.	124 m.	157 m.
Summer Feeding Program .	-0-	50 m.	121 m.
CCFP .....	-0-	46 m.	216 m.
 Total .....	 \$98 m.	 \$306 m.	 \$782 m.

o Administration Action to Date.

-- For FY 1982:

\* President Carter had proposed:

- Budget authority of \$3.9 billion.
- Programmatic reforms: Reducing the income eligibility standard for reduced-price meals; eliminating for-profit Title XX child care centers from the Child Care Feeding program.

\* President Reagan proposed:

- Budget authority of \$2.8 billion.
- Programmatic reforms: Eliminating meal subsidies to non-needy children (above 185% of poverty); discontinuing non-essential nutrition education programs, non-essential equipment assistance, and the Summer Feeding program; limiting the Special Milk program to schools not participating in any other nutrition assistance program; and lowering income eligibility standards for reduced-price meals.

\* Congress approved:

- Budget authority of \$2.8 billion.
- Programmatic reforms: Reducing subsidies to non-needy children; Administration proposals for equipment assistance, income eligibility standards and the Special Milk program; limiting the Summer Feeding program to government sponsors in low-income areas; and verifying the eligibility of those receiving special meal subsidies.

-- For FY 1983:

\* President Reagan proposed:

- Budget authority of \$2.9 billion.
- Programmatic reforms: Consolidating the School Breakfast and Child Care Feeding programs into a general nutrition assistance grant to states; discontinuing Summer Feeding and Special Milk programs.

\* Congress approved:

- Budget authority of \$3.2 billion.
- No programmatic reforms.

**The President's Proposals for FY 1984.**

- o Consolidate the school breakfast, child care feeding, and summer feeding programs into a nutrition assistance grant to the states.
- o Determine eligibility for free and reduced price school meals at food stamp offices instead of schools.
- o Freeze cost-of-living adjustments (COLAs) to meal reimbursement rates (i.e. the rates at which the federal government compensates the schools for providing subsidized lunches) for six months.
- o Adjust reimbursement rates for all types of meals by the same COLA.
- o Discontinue federal mini-grants for nutrition education programs.

**Justification (General).**

- o These reforms will enable the Administration to save an estimated \$297 million in FY 1984, while preserving benefits to the truly needy.

**Justification (Specific).**

- o Program consolidation.
  - The nutrition assistance grant would give the states more flexibility to design assistance programs for meals served to children outside a school lunch setting.
    - \* States would no longer have to apply a complex set of reimbursement rates or comply with 100 pages of federal regulations.
    - \* They would therefore be free to establish programs targeted to particular local needs.
- o Eligibility determination.
  - Schools would no longer have to determine which children were eligible for free or reduced-price meals.
    - \* Determining eligibility is an unfamiliar task to most school administrators.
    - \* It is also one for which they receive no compensation.
  - On the other hand, food stamp offices already have trained staff people, and would be paid for any expenses incurred.

-- As a result:

- \* Eligibility would be determined quickly and fairly.
- \* School administrators would be free to devote more time to education, and less to federal paperwork.
- \* Benefits would be assured of going to those who need them most.
  - This is not a minor concern, since the USDA Inspector General has estimated that nearly \$500 million may have been overclaimed in the school lunch program in 1980 due to (1) invalid applications, (2) inflated meal counts, and (3) lack of income verification.
  - Better efforts to verify the incomes of parents applying for free or reduced-price meals for their children would be an important step in curbing fraud and abuse.

o COLA freeze.

- The proposal is part of a government-wide effort to contain escalating costs in entitlement programs.
- Benefit levels would be preserved; the only difference would be that schools would receive higher reimbursement rates in January instead of in July.
- Additional subsidies to schools in needy areas would be maintained.

o Adjust reimbursement rates.

- At the present time, cost-of-living adjustments to reduced-price meal rates substantially overcompensate for inflation.
- This proposal would adjust all meal rates, including those for reduced-priced meals, by the same inflation factor.

o Discontinue nutrition education program assistance.

- The Nutrition Education and Training Program was designed to help the states develop nutrition education programs for local school districts.
- Because of past federal assistance, these programs are now well-established, and federal start-up aid is no longer needed.



Questions and Answers.

- o Program cuts under the guise of consolidation. Why is the funding level for the nutrition assistance grant reduced?
  - The grant is funded at 85% of FY 1984 current services for the three programs it would replace, minus funding for family day-care homes.
  - Savings can be achieved by addressing problems in current programs.
    - \* For example, family day-care homes receive generous meal reimbursement regardless of the income level of children served.
  - Savings would also result from the elimination of federal red tape.
- o Loss of benefits. How many recipients will lose benefits if the Administration's proposals are put into effect?
  - No one who is entitled to these benefits will lose any.
  - The only ones who will lose anything under these proposals are those who are presently collecting benefits to which they are not entitled under the federal law.
- o Will the states do the job? How can you assume that the states would provide the needed nutritional assistance under a grant system?
  - There is no good reason to suppose that they would not.
  - The funding will come from the federal government, and the states will get the funding only if they actually provide the assistance.
  - States and localities are closer to education-related problems, and historically have been more responsive than the federal government to local needs.
  - States and localities can more effectively target these resources according to individual needs.
  - Use of grants would reduce administrative burdens by eliminating 100 pages of federal regulations, thereby leaving more money for genuine nutritional assistance.
  - Furthermore, school administrators would no longer be forced to double as caseworkers.

- o Eligibility determination at food stamp offices. Wouldn't shifting the job of determining eligibility for school meals overburden the food stamp offices?
  - Food stamp offices would not be heavily burdened.
  - 60% of those applying for free and reduced-price lunches also receive food stamps.
  - Since the income limits for free lunches and food stamps are identical, these applicants can demonstrate eligibility simply by producing evidence of current participation in the food stamp program.
- o COLA freeze. Won't the six-month freeze in cost-of-living adjustments for meal reimbursement rates cause unnecessary administrative complexity?
  - Schools would receive two reimbursement rates over the course of the school year.
  - Formerly (until 1981), two reimbursement rates (in January and July) were standard policy, and did not cause any difficulty for local food service operations.

#

**ELEMENTARY, SECONDARY AND VOCATIONAL  
EDUCATION AID**

**History.**

Traditionally, public education has been supported primarily by state and local funds. In 1920, the federal government contributed only .03% to the cost of all public education. During the late 1950s, the federal role in public education began to grow, and today 8.1% of all money spent on public elementary and secondary education comes from the federal government.

**o Programs.**

Federal aid to elementary, secondary and vocational education falls into five major program areas:

-- Impact Aid.

\* Provides direct federal aid to school districts where parents either work for the federal government or live on federal property or Indian lands, or both.

-- Aid to Disadvantaged Students.

\* Provides aid to states and school districts to support compensatory services for educationally disadvantaged children.

-- Indian Education.

\* Provides federal grants for educational programs for Indian children and adults.

-- Vocational and Adult Education.

\* Programs assist youth in preparing for careers and adults who are in need of training or retraining.

-- Aid to Handicapped Children.

\* Provides federal funds to help states and localities educate handicapped children.

**o Costs.**

-- In 1962, the federal government spent \$448 million on aid to elementary, secondary and vocational education.

-- By 1980, outlays for such aid had risen to \$6.7 billion, representing a 14-fold increase.

o Coverage.

-- Impact Aid.

\* Provides aid to approximately 2,000 school districts.

-- Aid to Disadvantaged Students.

\* Serves 4.5-5.5 million children.

-- Indian Education.

\* The Education Department program serves about 325,000 Indian children and about 11,000 Indian adults.

-- Vocational and Adult Education.

\* In 1982, served about 18 million individuals (includes state and local support).

-- Aid to Handicapped Children.

\* Serves 4.0 million children.

o Administration Action to Date.

-- For 1982:

\* President Carter requested \$7.5 billion.

\* President Reagan requested \$5.2 billion.

\* Congress approved \$6.3 billion.

-- For 1983:

\* President Reagan requested \$4.3 billion.

\* Congress approved \$6.7 billion.

The President's Proposals for FY 1984.

o Impact Aid.

-- Reduce spending from the 1983 level of \$480.2 million to \$455 million in 1984.

o Aid to Disadvantaged Students.

-- Reduce spending from the 1983 level of \$3.2 billion to \$3.0 billion in 1984.

-- Increase funding for the principal Chapter 1 program, grants to local school districts, by \$42 million. This program reaches about 14,000 of the nation's 16,000 school districts.

o Indian Education.

- Eliminate the Department of Education's program, but maintain Bureau of Indian Affairs' education programs for Indians living on or near reservations.

o Vocational and Adult Education.

- Combine the categorical grant programs for vocational and adult education, which totalled \$823.7 million in 1983, into a \$500 million consolidated grant.

o Aid to Handicapped Children.

- Maintain budget level at the 1983 appropriation of \$1.1 billion.
  - \* Increase state grants by \$28.2 million.
  - \* Reduce special purpose funds, the federal discretionary program, by that same amount.

o Math and Science.

- Initiate a three-part program to enhance the quality of teaching at the nation's elementary and secondary schools and to enable more students to receive adequate math and science training.
  - \* National Science Foundation (NSF) would fund programs to improve the quality of pre-college science and mathematics teaching through collaborative projects with universities, local education agencies, and industry.
    - A total of \$14 million would be set aside for this program in 1983, and \$19 million in 1984.
  - \* A new Education Department program would distribute block grants to the states to help train additional secondary school math and science teachers. The program would support training for an additional 5,000 to 10,000 individuals each year.
    - The block grant awards would total \$50 million per year.
  - \* A joint NSF and Education Department program would provide awards to outstanding pre-college math and science teachers.
    - Each winner's school would receive a \$5,000 grant to be used to improve its math and science programs.

**Justification (General).**

Proposed changes would:

o Reduce the rate of growth in federal spending.

-- Federal costs have grown far out of line with increases in services, rising 14-fold since 1962.

\* Much of this growth in spending is due in part to complicated, burdensome and unnecessary federal requirements.

\* Changing the structure of the programs to eliminate these requirements would help provide better service at lower cost.

-- The proposals would save \$500 million in 1984.

o Restore state and local responsibility for aid to education.

-- States and localities are better able to determine the specific needs of their regions than is a distant and inflexible bureaucracy in Washington.

-- Providing simplified block grants to states will not only reduce administrative burdens, but will also give the states the flexibility they need to make more efficient use of funds.

**Justification (Specific).**

o Impact aid.

-- The proposed request includes \$455 million for aid to school districts.

\* Most of these funds -- \$446 million -- would go to payments for children who both live on federal property and have a parent who works on federal property.

\* This represents an increase of \$100 million over the level of payments for these children in 1993.

-- No funds are requested for school construction in light of the recent appropriation of \$60 million for that purpose contained in the bi-partisan employment bill, recently signed by the President.

o Aid to disadvantaged students.

-- The proposed reduction in total in aid to disadvantaged students largely reflects reductions in the two accounts as follows:

\* Reduce funding for migrant education programs from the 1983 level of \$255.7 million to \$129.4 million in 1984, achieved by:

- Tightening the definition of "migrant". Studies by the Department indicate that 46% of the children receiving aid were not truly migrant because their education was not interrupted by their families' moving.

- Allowing a student to participate in the program for two years after having been deemed migrant rather than the current five years, an unnecessarily long period of time.

\* Reduce funding for handicapped education programs from the 1983 level of \$146.5 million to \$104.8 million in 1984.

- Under the present system, \$603 continues to be paid for the education of each child who leaves the state institutions and enrolls in local public schools even though the amount required for the education of their handicapped peers in the regular schools is only \$245.

o Indian education.

-- The proposed elimination of Indian education programs at the Department of Education reflects two key facts:

\* Indians are eligible to participate in all Education Department programs as long as the meet criteria applied to all individuals. In some of these programs, in fact, Indian participation is disproportionately high.

- For example, \$180 million of the \$465 million 1984 budget for Impact Aid will benefit Indians.

\* Department of Education programs that are intended to be primarily of benefit to Indians duplicate programs at the Interior Department.

o Vocational and adult education.

- The program simplification and combination of vocational and adult education programs into a consolidated grant is expected to result in administrative savings, resulting from elimination of unnecessary recordkeeping requirements, reports and other paperwork burdens.
- States and localities have consistently and substantially "overmatched" federal vocational education spending. This program, popular with the states and scheduled for turnback under the New Federalism, is not a high federal priority and should not be funded at high levels in a time of federal fiscal restraint.

o Aid to handicapped children.

- The increase in state grants is intended to maintain the federal share of the average excess educational cost of handicapped children at its current level of about 8%.
- About 40,000 more children are expected to be served.

o Math and science.

- The resources required for this critical undertaking will result in significant improvement in the ability of the nation's schools to upgrade the quality of math and science education.



### Questions and Answers.

o Fairness. By proposing the elimination of Indian programs and reducing aid to disadvantaged students, isn't the President again cutting the budget on the backs of the neediest in our society?

-- Existing programs which provide support for all children are sufficient to provide for the education of Indians.

-- Under the Administration's proposal, the federal share of the cost of programs to aid disadvantaged students would be 14% in 1984. This proposed level is substantially higher than the entire federal share of elementary and secondary education financing -- 7.7%.

o Math and science. With other programs being cut at the Department of Education, how can the Administration justify creating this new program?

-- A strong economy and national defense will require a technically skilled work force.

-- But objective measures have shown a steady decline over the last 15 years in pre-college math and science skills.

\* Only one-sixth of high school graduates have taken junior and senior level courses in science and math.

\* One-third of U. S. high schools do not offer sufficient math courses to prepare graduates for engineering schools.

\* If all students were to take just one more math or science course, more than 30,000 additional teachers would be required.

\* Other programs are being cut because they are of lower priority.

- o Department of Education. Has the President given up on abolishing the Department of Education?
  - The President continues to support the dismantlement of the Cabinet-level Department of Education.
  - A limited federal role in education is appropriate. Thus, the President's budget proposals for 1983 and 1984 have attempted to limit the federal role and return more responsibility and authority to the states.
  - \* In the 1983 budget, the President proposed the establishment of a Foundation for Education Assistance, which was intended to restore a more appropriate federal-state balance by reducing the power of federal education officials to interfere in state and local decisions.
  - \* The Congress has not yet accepted the President's initiative in this area.
  - \* The 1984 budget continues to reflect these goals.
- In the meantime, alternative approaches for dismantling the Department of Education remain under consideration.

## ENERGY ASSISTANCE

### History.

In 1977, the federal government established a home energy assistance program at the Community Services Administration in order to provide assistance to needy families who had difficulty paying increasing energy prices.

When CSA was dismantled in 1981, the Low Income Home Energy Assistance Program was transferred to the Department of Health and Human Services.

### o The Program.

- Provides grants to states to help low-income citizens pay rising energy costs.
- States are allowed to set eligibility standards within broad federal guidelines.
- The aid can be in the form of direct cash assistance to needy households, direct payments to fuel vendors on behalf of the needy, or payments to public housing building operators.
- The grant also permits states to allocate up to 15% of their funds for low-cost residential weatherization.

### o Coverage.

- Since FY 1980, about 7 million households have participated in the program each year.

### o Cost.

- In FY 1977, when the program was established at CSA, the budget was \$200 million.
- In FY 1981, when the program was moved to HHS, the budget had reached \$1.95 billion -- an increase of nine times in just four years.

### o Administration Action to Date.

#### -- For FY 1982:

- \* President Carter requested \$1.9 billion.
- \* President Reagan requested \$1.4 billion.
- \* Congress approved \$1.9 billion.

#### -- For FY 1983:

- \* President Reagan requested \$1.3 billion.
- \* Congress approved \$2.0 billion.

**The President's Proposals for FY 1984.**

- o Reduce budget authority by \$686 million to a level of \$1.3 billion in FY 1984.
- o Revise state allotment formula to better direct funds to low-income heating needs by targeting:
  - States with severe winter climates.
  - States with larger numbers of low-income households.

**Justification.**

- o Refocuses benefits on those who were originally intended to be assisted: low-income families and individuals whose health and life would be endangered by inability to provide against severe cold.
  - The current grant formula is based on 1979-80 data regarding fuel prices and 1976 data regarding low-income population distribution. The formula does not reflect shifts in poverty populations nor the changes in fuel prices.
  - The proposed formula would eliminate the Virgin Islands, Puerto Rico, and other trust territories from the program.
- o Achieves significant budgetary savings without causing undue hardship for those in need of heating assistance.

Questions and Answers.

- o Reduced funding. How can we provide assistance to those who need it with the budget cut so drastically?
  - The Administration's proposed new formula targets the grants in such a way as to:
    - \* Provide grants at the FY 1982-83 level to states that have the most severe cold weather conditions, such as those in the Northeast and North central regions.
    - \* Reduce grants to states that need them the least -- those that have more moderate climates or fewer low-income households -- thereby enabling larger expenditures in cold states while reducing overall spending.
  - In the last two years, some fuel prices have dropped sharply in real terms, reducing low-income families' energy costs.
- o Distribution of grants. Which states will lose funds and how will their low-income residents meet their heating costs?
  - Some of the Southern states will probably receive the greatest reductions in their grant allotments. These States, however, are better able to withstand the reductions, primarily because they have the mildest climates.
  - Still, these States will continue to receive grants for heating aid during unseasonably severe cold weather.
- o Help for the long-term unemployed. How can we ensure that those who have lost their jobs in the hardest hit industries will be protected?
  - The Administration's proposed formula for allocating grants to the States utilizes the latest Census data, in which the number of long-term jobless is included.
  - States may disregard federal unemployment compensation benefits when determining eligibility, which would automatically qualify many of the long-term unemployed for low-income energy assistance.

## FOOD STAMPS

### History.

The food stamp program began in 1961 on an experimental basis, and was made permanent in 1964. As a pilot program in 1961, the program's purpose was as much to remove agricultural surpluses from the market as it was to improve the diet of low-income families.

### o Program.

- The federal government provides food stamps to recipients, who then redeem them at participating grocery stores for food.
- The recipient family must have a gross income of no more than 130% of the poverty line.
- In order to qualify for food stamps, able-bodied adults must register for and accept available employment.

### o Major program changes.

- Prior to January 1979, recipients were required to purchase food stamps at a certain percentage of the stamps' face value, that percentage being determined by the recipient's income level.
- Effective January 1979, Congress eliminated the purchase requirement and made the stamps free to eligible recipients.

### o Coverage.

- In 1965, 400,000 persons received food stamps. By 1975 that number had increased by more than 42 times, to 17.1 million.
- In 1981, more than 22 million people -- one out of every ten Americans -- received food stamps.

### o Costs.

- In 1965 the food stamp program cost \$35 million. By 1977 the cost had risen more than one hundred times to \$5.4 billion.
- Outlays doubled from \$5.4 billion in 1977 to more than \$11 billion in 1981.
- Food stamp spending per participant, adjusted for the increase in the price of food, grew 12.4% between 1977 and 1981.

o Administration Action to Date.

-- For FY 1982:

\* President Carter had proposed:

- Total funding of \$12.4 billion for the food stamp program.
- Delaying increases in the program's various cost-of-living measures.

\* President Reagan proposed:

- Total funding of \$10.6 billion for the food stamp program and a separate nutrition assistance grant for Puerto Rico.
- Numerous major programmatic reforms, including proposals to:
  - a) Establish a gross income eligibility standard of 130% of the poverty line.
  - b) Require retrospective accounting and periodic reporting of income.
  - c) Delay increases in the program's cost-of-living measures.
  - d) Prohibit participation by boarders.
  - e) Prohibit children living with parents from filing as separate households.
  - f) Establish a separate nutrition assistance grant for Puerto Rico.
  - g) Reduce allotments for households with children eligible for free school lunches.

\* Congress approved:

- Total funding of \$11.3 billion for food stamps and the nutrition assistance grant for Puerto Rico.
- All major programmatic reforms proposed by the Reagan Administration except for the proposal to reduce allotments for households with children eligible for free school lunch, plus:
  - a) Adjustments to the Thrifty Food Plan.
  - b) Creation of an optional workfare program.
  - c) A prohibition against participation by strikers except if they were eligible prior to the strike.

-- For FY 1983:

\* President Reagan proposed:

- Total funding of \$10.4 billion for food stamps and nutrition assistance for Puerto Rico.
- Major programmatic reforms that would:
  - a) Revise food stamp rounding rules so that amounts in excess of whole dollar figures would be dropped from benefit payments.
  - b) Require able-bodied food stamp applicants to begin job search activities as soon as they apply for Food Stamps.
  - c) Eliminate federal matching for all payments errors by 1986.
  - d) Reduce allotments by an additional 5¢ for each additional dollar of income received by the household.
  - e) Discontinue exclusion of certain types of cash income in determining benefit levels.
  - f) Count energy assistance payments as income in determining household eligibility and benefit levels.

\* Congress approved:

- Total funding of \$11.6 billion for food stamps and nutrition assistance for Puerto Rico.
- Major programmatic reforms, including:
  - a) Modified versions of the Administration proposals on rounding rules, job search requirements and federal matching of payment errors.
  - b) Cuts in the value of the Thrifty Food Plan.
  - c) Revisions in the calculation of standard utility allowances.

The President's Proposals for FY 1984.

- o Hold states liable for payment errors exceeding 3% of benefits.

-- This means that if a state makes food stamps available to persons who are ineligible to receive them, and that the total amount of these errors exceeds 3% of total benefits paid out by the state under this program, the state will be liable to the federal government for the amount in excess of 3%.



- o Simplify the benefit calculation by standardizing the shelter and earnings deductions.
  - This proposal would simplify the process of determining a household's net income by:
    - \* Eliminating the deduction for shelter expenses and replacing it with a larger standard deduction.
    - \* Eliminating the 18% earnings deduction and replacing it with a standard \$75 deduction.
- o Simplify the definition of "household" by requiring all individuals living together to file as a single household for food stamp benefit calculations.
- o Simplify food stamp application procedures for households containing AFDC recipients.
  - This reform would allow AFDC households, which have already undergone eligibility tests for that program, to automatically qualify for food stamps.
- o Require each state to adopt a mandatory community work experience program (CWEP).
  - This provision would assure that all able-bodied food stamp recipients would have to find work in the private sector or perform useful public services when no private job was available.
- o Delay the cost-of-living adjustment from October 1983 to April 1984.

#### Justification (General).

- o These changes would continue to reduce the growth in the cost of entitlement programs without jeopardizing assistance to the truly needy through:
  - Targeting benefits to those most in need.
  - Reducing the \$1 billion in overpayments made every year.
- o These changes would save \$741 million in FY 1984.

#### Justification (Specific).

- o Hold states liable for errors exceeding 3% of benefits.
  - States currently do not have sufficient incentive to improve administration.
    - \* Benefits are 100% federally-funded.
    - \* States do not share costs.

- As a result, \$1 out of every \$10 in food stamp benefits is issued in error.
- Current law target error rates are 7% for FY 1984, and 5% for FY 1985 and beyond.
- AFDC and Medicaid already have 3% error rate targets; food stamps should have the same.
- o Simplify food stamp benefit calculation by standardizing shelter and earnings deduction.
  - The current calculation of deductions is a complicated procedure, often leading to caseworker errors in the computation of benefits.
- o Simplify definition of a household by requiring all individuals living together to file as a single household for food stamp benefit calculations.
  - Recipients qualify for higher food stamp benefits when filing as separate households than when applying as a single household.
  - Current law allows recipients to gain status as separate households (and correspondingly higher benefits) even though they live together and depend on each other for support.
  - This reform will help to curb such abuses.
- o Simplify food stamp application procedures for households containing AFDC recipients.
  - Rather than continuing present complicated rules to determine eligibility for food stamps, AFDC households would receive a standard food stamp allotment.
- o Require states to adopt CWEP.
  - Present regulations require able-bodied recipients to register their availability for work, and to seek work in the private sector.
  - This proposal would require anyone who could not find a private sector job to do public service work through mandatory CWEP program, coordinated with the voluntary CWEP program (proposed to become mandatory) already in operation as part of AFDC.
- o Cost-of-living adjustment delay.
  - This proposal is part of the government's overall COLA delay policy.

- It restrains program costs without reducing benefits (only reducing the growth in benefits).
- Low inflation rates in the past year ensure that recipients will not be hurt by the COLA delay.

Questions & Answers.

- o Denying adequate nutrition. Won't cuts in food stamps condemn low-income Americans to inadequate nutrition levels?
  - The proposed changes will not become effective until FY 1984. In the interim, the Administration is requesting more than \$1 billion in supplemental 1983 funds to ensure that the nutrition needs of low-income Americans are met.
  - An estimated 21.5 million persons are expected to receive food stamps in FY 1984, a recovery year -- nearly five million more recipients than in the 1974-75 recession.
  - Food stamp benefits for the more than 4 million recipients with little or no income will be virtually unchanged by these proposals.
  - Recipients with higher incomes will have their benefits adjusted only marginally, this to more accurately reflect their real need for nutrition assistance.
  - Food stamps will remain available to all families with incomes below 130% of the poverty line.
- o Elderly recipients. The elderly poor have special needs; will this fact be taken into account?
  - The food stamp program's protections for the elderly remain intact, including the exemption from the regular income and asset limits and the special deduction for high medical expenses.
  - The proposal to revise the definition of "household" will also allow elderly persons living with their children to apply as separate households.
- o Waste, fraud and abuse. How can we be sure the Administration's efforts to ferret out waste, fraud, and abuse won't deny some needy persons adequate nutritional benefits?
  - Erroneous food stamp issuance costs the taxpayers more than one billion dollars a year; reducing fraud and waste must be a top priority if we are to have the funds to assist those in greatest need of help.
  - Eliminating fraud and waste in this and all programs is an important part of slowing overall spending growth, which is essential to achieving economic recovery, and which in turn provides the promise of more jobs and higher real incomes. The best way to help the poor is by helping them become self-sufficient.

- Adequate protections are provided in the review process to ensure that those who need assistance will continue to receive it.
- o Families living together. If economic conditions force two families to share living quarters, why should food stamp benefits be reduced?
  - If two families are sharing quarters, both should be required to contribute to their combined living expenses.
  - These living costs are proportionately less because of economies in sharing quarters.
  - Food stamp benefits should be provided only to the extent of need. It is better to target aid to those who are unable to meet their living expenses in any living arrangement.
- o Working for benefits. Isn't it unfair to force food stamp recipients to work for their benefits?
  - If they are able to work, then it is only fair that they do so in order to receive benefits.
  - It is particularly unfair to tax low-income Americans to support beneficiaries who are able to work but unwilling to do so.
- o Increasing the cost of the food stamp program. Won't making AFDC recipients automatically eligible for food stamps greatly increase the cost of the program?
  - On the contrary, it will reduce the cost of the program by reducing administrative costs and duplication of efforts.
  - It will also assist the needy by cutting red tape.
- o The 3% solution. What evidence is there that the states will be able to hold errors to 3% or less?
  - The 3% rule is already in effect with regard to AFDC, a program where the states share the costs.
    - \* The error rate is lower in that program for precisely that reason.
    - \* The new rule proposed by the Administration will give the states an incentive to reduce errors in the food stamp program as well by making errors costly to them.

- o Freezing benefits. If food prices are continuing to go up, how can you justify freezing food stamp benefits?
  - Benefits are not being frozen; administrative procedures are being tightened to ensure that benefits will go only to those who are entitled to them -- that is, to families with incomes below 130% of the poverty line.
  - Cost-of-living increases will continue; the only difference is that they will take effect in April instead of October.
  - Food price increases have moderated substantially in recent months.
    - \* Food prices rose only 4.3% in 1981 and only 3.1% in 1982.
    - \* Food prices have been essentially level for the past four months.
  
- o CBO study. Recently, the Congressional Budget Office released a study saying the President's food stamp budget changes for next year will hurt the poor. A USDA official conceded that budget cuts would reduce benefits for millions of beneficiaries. How can the President justify these actions?
  - The budget request for FY 1984 does cut food stamp funding from this year's \$11.8 billion to \$10.3 billion.
  - Three reforms account for most of savings:
    - \* Require states (which actually run the program) to reduce error rates -- about \$400 million will be saved by tightening Administration;
    - \* Change way eligibility is calculated -- to save up to \$300 million;
    - \* Delay COLA adjustment for 6 months. CBO says this is major benefit reduction but low food inflation (only about 1 percent over last 6 months) means little real impact on beneficiaries.
  - The proposed reforms would mean:
    - \* Increased benefits (averaging about \$4.40 a week) for about 40 percent of the 8 million households now getting stamps.
    - \* Reductions for about 35 percent (averaging about \$6.25 a week).
    - \* No change for the rest.

-- These changes are relatively minor in view of the fact that:

- \* Spending is almost \$4 billion more than in 1980.
- \* Almost 4 million more people receiving them than in 1980.

#

## HEALTH CARE

History.

Before the initiation of the "Great Society," the federal government played a very minor role in the provision of health care services. In 1963, the federal government spent, exclusive of veterans' benefits, only \$623 million on health care services. This represented 0.5% of the total federal budget of \$111 billion.

o Programs.

Currently two major federal government programs, combined with one tax provision, finance or help finance health care:

-- Medicare:

- \* Established under the Social Security Act in 1966, this program provides medical care for Americans over 65 and for the disabled.
- \* Medicare is financed by general revenues, payroll tax contributions and beneficiary premiums.

-- Medicaid:

- \* Established at the same time as Medicare, this program provides grants to states to assist them in providing medical care to low-income families and individuals.
- \* The federal government provides states with open-ended matching payments for their expenditures, with the federal matching rate (based upon state per-capita income) ranging from 50 to 78% of the cost of the program.

-- Tax subsidies:

- \* Federal tax laws help finance health care by allowing employees to exclude from their taxable income the insurance premiums paid by their employers.
- \* This subsidy will finance an estimated \$29 billion worth of health care coverage in 1984.

o Coverage.

-- Medicare currently covers 29 million people.

-- Medicaid now provides health care benefits for 22 million people. Beneficiaries include almost 10 million needy children, 3 million disabled Americans, and 3.5 million elderly.



- Medicare and Medicaid together cover approximately 27 million senior citizens, or about 99% of that age group.
- The two programs cover approximately 5 million disabled Americans.
- Approximately 62 million employees benefit from the tax subsidy.

o Costs.

- Total federal spending for health care (including programs operated by the Department of Defense and Veterans Administration) has soared from \$5.5 billion in 1965 to \$74.6 billion in 1981, increasing more than 13 times and consuming more than 11% of the federal budget.
- While total public and private spending for health care rose rapidly over this period (\$42 billion in 1965 to \$287 billion in 1981) the federal share of all health care costs more than doubled -- from 13% in 1965 to 29% in 1981.

o Administration Action to Date.

-- For FY 1982:

\* President Carter requested a total outlay level of \$46.6 billion for Medicare, and \$18.2 billion for Medicaid.

- Medicare.

- a) The proposed outlays level assumed \$400 million in legislative savings from a number of minor reimbursement and coverage reforms.
- b) Regulatory savings of \$300 million were also assumed, primarily from improvements in the ineffective PSRO program.
- c) The Carter budget also made the unrealistic assumption that the hospital industry's voluntary effort to hold down costs would produce savings of \$800 million.

- Medicaid.

- a) The Carter Administration budget assumed 1982 savings of approximately \$100 million in Medicaid, including a mix of minor savings proposals and several benefit expansions.

\* President Reagan proposed expenditures of \$47.1 billion for Medicare, and \$17.2 billion for Medicaid.

- Medicare.

- a) The Reagan Administration proposed the following Medicare reforms: repeal of unnecessary benefit expansions, modest increases in hospital and outpatient deductibles, and some minor reimbursement reforms.
- b) Total 1982 savings assumed from these reforms: approximately \$1.4 billion.

- Medicaid.

- a) The Reagan Administration proposed to limit the rate of increase in Medicaid to 5% in 1981 and to the level of the GNP deflator in subsequent years.
- b) States were to be given flexibility to manage the program more efficiently and effectively.
- c) Savings of \$1 billion in 1982 were assumed.

\* Congressional action:

- Medicare.

- a) Congress enacted the Administration-backed Medicare reforms as part of the Omnibus Reconciliation Act of 1981 (OBRA).
- b) Total Medicare budget approved: \$46.6 billion.

- Medicaid.

- a) Congress adopted many of the Reagan Administration proposals in OBRA for giving the states greater freedom to manage their programs more effectively.
- b) Target rates were established for growth in state Medicaid programs, and the federal match was reduced for states failing to achieve targets.
- c) Savings in 1982 from the establishment of target rates, combined with the impact of other federal welfare program changes, were nearly \$400 million.
- d) Total Medicaid budget approved: \$17.4 billion.

-- For FY 1983:

\* President Reagan proposed Medicare expenditures of \$49.5 billion, including legislative and regulatory savings measures totaling \$3.1 billion; and a Medicaid budget level of \$17.1 billion was proposed, including \$2.0 billion in legislative and regulatory savings.

- Medicare: The Administration proposed reform of physician and hospital reimbursement, integration of federal workers into the hospital insurance program, and making Medicare coverage secondary to private group insurance coverage for the working aged.

- Medicaid: The Administration proposed a number of reforms designed to increase the responsibilities of beneficiaries and their families to pay a portion of the cost of needed care and to eliminate excessive subsidies to state programs.

\* Congressional action:

- Medicare.

a) Congress adopted a Medicare reform package embodying the basic thrust of the Reagan proposals; these reforms were part of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA).

b) Total savings for 1983: \$2.7 billion.

c) Total Medicare budget approved: \$53 billion.

- Medicaid.

a) Congress adopted, in modified form, the Reagan Administration proposals to increase beneficiary responsibility for care financed by Medicaid.

b) Congress rejected most of the Administration's proposals to reduce federal subsidies for portions of the Medicaid program.

c) Total savings for 1983: \$200 million.

d) Total Medicaid budget approved: \$19.3 billion.

The President's Proposals for FY 1984 (Highlights).o For Medicare (Highlights):

- Provide catastrophic hospital cost protection while reforming user cost-sharing.
- \* Currently, beneficiaries pay a deductible (approximately \$350 in 1984) for the first day of hospital care for each hospital admission in a spell of illness. The Medicare program pays the full cost for the 2nd through the 60th day of care. From the 61st to 90th day of care, beneficiaries pay 25% of the deductible for each day in the hospital; after the 90th day, the beneficiary has unlimited liability for the cost of care except for 60 lifetime reserve days during which patients pay 50% of the deductible for each day.
- \* Under the Administration proposal, beneficiaries would pay, for each spell of illness, the deductible that is now required, as well as 8% of the deductible for the 2nd through 15th day of care, and 5% of the deductible for the 16th through the 60th day, without any limit on covered hospital days. Medicare would pay the full cost after 60 days.
- \* For low-income elderly who could not afford the Medicare cost-sharing, the patient costs of hospitalization would be covered by Medicaid.
- Replace Medicare's current wasteful and inflationary hospital reimbursement system with fixed prospective payments.
  - \* Rates would be set for each of 467 diagnosis-related groups, with adjustments for local wages and exclusion of capital and medical education expenses.
  - \* Hospitals with costs lower than the established rates could keep the difference.
  - \* The Department of Health and Human Services would monitor hospitals to ensure that the quality of and access to care was maintained.
  - \* This proposal was incorporated in large part in the social security reform legislation the President approved earlier this year.
- Impose a one year freeze on recognized physician fees and for one year limit hospital cost increases to inflation in the cost of goods and services purchased by hospitals.

- Delay increases in the Supplementary Medical Insurance (SMI) premium for six months (from July 1983 to January 1984) and, instead, raise the premium on January 1, 1985, from 25% to 27.5% of program costs, growing to 35% by 1988.
- Index the SMI deductible to the Medicare economic index.
- Establish a program of voluntary vouchers to enable beneficiaries to purchase the health insurance that best suits their needs.
  - \* Beneficiaries would have a choice of health care plans as alternatives to Medicare.
  - \* Election of a voucher would be purely voluntary and beneficiaries could return to Medicare if they were dissatisfied.
  - \* The government would pay an amount equal to 95% of the per-person costs of the Medicare program.
- o For Medicaid (Highlights):
  - Require states to set nominal co-payments for Medicaid services to help deter unnecessary use of services.
  - To ensure that Medicaid remains the payer of last resort, require states to seek medical support from absent parents who have employer-subsidized health insurance available which could cover the AFDC family at reasonable cost.
- o For the private insurance market:
  - Limit the tax-free exclusion of employer-paid health insurance premiums to \$175 per month for a family plan and \$70 per month for an individual plan.

#### Justification (General).

- o Reduce growth of federal spending.
  - The cost of health care services has grown much more rapidly than other programs. At current services levels, Medicare is expected to grow by 16.1%, or \$8.5 billion, next year, compared to average overall budget growth of 5.4%. The Medicaid budget would grow \$1.8 billion, or 9%.
  - The President's proposals will:
    - \* Save \$2.0 billion in Medicare and Medicaid for 1984, and a total of \$27.9 billion from 1984 to 1988.
    - \* Increase tax collections by \$2.3 billion in 1984 and \$31.4 billion in 1984-88.

o Reduce health price increases.

- Health care costs have risen much faster than the inflation rate.
  - \* From 1966 (the year Medicare and Medicaid began) to 1981, general prices rose 80% and medical prices rose 522% -- or 6-1/2 times as fast.
  - \* The cost of the average hospital stay jumped from \$316 in 1965 to \$2,168 in 1981 -- an increase of 6 times.
  - \* The cost of health insurance rose 15.9% last year -- the biggest increase ever.
- Rapidly rising medical costs are due largely to the lack of cost-consciousness among both users and suppliers of health care. Costs can easily be passed onto the taxpayers through the reimbursement procedure.
- Requiring beneficiaries to assume a small percentage of health care costs introduces a market force that constrains users from requesting, and suppliers from suggesting, medically unnecessary services.
- Reducing tax subsidies for excessive insurance coverage will promote cost-consciousness among purchasers of coverage and provide additional incentives to seek cost-effective methods of providing and financing care.

Justification (Specific).

o For Medicare:

- Provide catastrophic hospital cost protection while improving user cost sharing.
  - \* In most cases, the present cost-sharing structure provides no deterrent to avoid unnecessary use of hospital services once a patient is admitted and pays the deductible. Severely ill patients, however, face a potentially unlimited financial burden.
  - \* The Administration's proposed reforms would:
    - Discourage unnecessary use of hospital services while not inhibiting necessary admissions.
    - Protect the 170,000 Medicare beneficiaries who each year suffer an illness requiring more than 60 days in the hospital.
    - Reduce the maximum amount a person would have to pay for a 150-day continuous hospital stay by almost 90% from \$13,475 to \$1,530.

\* This proposal would save \$663 million in FY 1984.

-- Reform hospital reimbursement.

\* Medicare's cost-based reimbursement system encourages inefficiency in the delivery of hospital service by reimbursing hospitals for virtually whatever costs they claim.

\* The Administration's proposed prospective payment system will create incentives for hospitals to limit cost increases.

-- Freeze on fees and limit on hospital cost increases.

\* These freezes would ask health care providers to accept a temporary limitation on reimbursement increases comparable to the COLA freezes that are asked of federal workers, the military, federal retirees, and social security beneficiaries.

\* Because of the current low rates of inflation, these freezes would not impose any significant burden on physicians or hospitals.

\* The one-year freeze would save \$780 million in 1984 rising to \$6.0 billion by 1988.

-- Delay scheduled increases in the SMI premium for one year and raise it to 35% of program costs by 1988.

\* SMI is a voluntary program for the aged who want to buy additional medical outpatient insurance.

\* When the SMI program began, beneficiary premiums were supposed to finance 50% of SMI program costs; the remaining 50% was to be financed by general revenues.

\* Since 1972, however, the SMI premium increase was limited by the rate of increase of social security benefits and fell to below 25% of program costs.

\* In view of the economic difficulties confronting the working population, this proposal would return partially to the original legislative intent of SMI financing split more evenly between those who choose SMI coverage and the taxpayer, consistent with the original program design.

-- Index the SMI deductible to the Medicare economic index.

\* This proposal would keep the economic value of the deductible (now \$75) constant in real terms, so that taxpayers are not unintentionally forced to finance increasing shares of SMI participants' medical costs.

-- Institute a voluntary voucher.

- \* The availability of vouchers would encourage cost competition among both private and Medicare health care providers, slowing the growth of health costs.

o For Medicaid:

-- Recipient fees.

- \* Requiring recipients to pay a small fee (\$1 for an out-patient visit, for instance) would not deter a poor person from seeing a doctor, but would help to discourage unnecessary visits.

-- Seeking medical support from absent parents.

- \* Where financially possible, parents have the obligation to pay for their family's health care.
- \* This proposal would save \$90 million in FY 1984.



Questions & Answers.

- o Reducing budget at expense of the poor and aged. Isn't the Administration trying to reduce health care expenditures at the expense of those who really need health care and simply can't afford its high cost?
  - No. The Reagan Administration would still be devoting more funds to health than ever before -- \$74 billion in 1984.
  - The President's budget would continue to provide health care for 99% of the aged as well as for the non-aged, needy poor.
  - Expenditure savings would come largely from administrative efficiencies or reasonable efforts to discourage medically unnecessary use of health services.
- o Cutting off health care to the poor. How many poor people would lose their health benefits?
  - Under the President's proposals, nearly 47 million people would receive health care benefits in 1983 -- approximately the same number of people as in 1982.
  - All of the genuinely needy would continue to be served by available health care services.
- o Quality of health care. How can health care costs be cut without cutting health services or quality of health care?
  - The administration's reforms are designed to root out waste and duplication.
  - President Carter's Inspector General of HEW estimated that in 1977 there was between \$4.1 and \$4.6 billion in waste, fraud and abuse in the Medicaid program alone.
  - Instead of hurting either quality or access, the president's proposals would improve them.
  - \* Slowing health care price increases would make care more easily affordable to those who are not covered by federal health care programs.
  - \* If health services are absolutely free, individuals tend to use them regardless of their real needs. This, in turn, adds unnecessary costs to these programs, increases prices, and forces taxpayers and other health care users to pay more.
  - \* Overuse of health care services is unfair in that those who do not really need health services are permitted to jeopardize access to them by people who really do need them.

- \* Modest fees will preserve this vital access to care by restraining the unnecessary use of medical services, thereby allowing more attention to be devoted to those who are genuinely in need.
  
- Part of the savings from the Medicare cost-sharing for short stays will finance the costs of those with very severe illnesses who will now pay less.
  
- Bottom line: Those who need health care will still be able to get it under the President's proposals, and those with severe illnesses will have better financial protection than they had before.
  
- o Hospital reimbursement reform. By reducing Medicare reimbursements, aren't you simply shifting costs to private payers?
  - Medicare pays almost 40% of community hospital inpatient costs. Its inflationary reimbursement policies have contributed to excessive cost increases that burden the government, beneficiaries, and private payers.
  
  - Through reform of its reimbursement system, Medicare can help other payers by reducing hospital inflation and can set a positive example for the private sector.
  
- o Raising SMI Premiums. By raising SMI premiums, aren't you imposing an unfair burden on the elderly, who are already going to have a COLA freeze?
  - We are delaying the normal increase for six months and will not start the extra increase until 1985. The increase in SMI premiums will not occur until after the freeze is over.
  
  - It is not fair to ask the hard-pressed working population to shoulder the burden of an ever-increasing share of Medicare program costs. At a maximum share of 35% by 1980, the beneficiaries would still be paying less than under the original program design, which assumed they would pay 50%.
  
- o Instituting co-payments. By imposing fees for visits, aren't you discouraging the poor from getting the health service they need?
  - The fees are small (\$1 to \$1.50 for outpatient Medicaid visits and \$1.00 to \$2.00 for inpatient days), so that those dependent on public assistance would not be deterred from receiving health care if they genuinely need it.
  
  - But some fees are necessary to reduce overuse and restore fairness.

- o Cap of tax subsidy. Isn't the proposed cap, simply a highly-disguised tax increase?
  - The current subsidy has distorted private coverage decisions by reducing the cost of health insurance relative to other forms of compensation.
    - \* The capped tax subsidy will eliminate the bias in favor of higher-priced coverage and against comparably higher wages.
  - The capped tax subsidy will still provide adequate coverage in all parts of the nation.
  - Employees who wish to have greater coverage will still be able to purchase it.
  - On the other hand, under the President's proposal, employees can avoid having premiums taxed by purchasing more cost-effective health plans.

#

## HOUSING ASSISTANCE

### History.

The Department of Housing and Urban Development was created by act of Congress in 1965. HUD was designed to administer the principal programs by which the federal government provides housing assistance.

### o Programs.

There are currently five major low-income housing programs administered by HUD:

#### -- Public Housing:

- \* HUD supports construction of low-income public housing, owned and operated by local public housing agencies, that houses an estimated 1,250,000 families who rent the units.

#### -- Section 8 Existing Housing Program:

- \* Subsidizes 995,000 households living in existing private market rental housing, with rents limited to a maximum "fair market rent" established by HUD.

#### -- Section 8 New Construction Program:

- \* Provides assistance to 550,000 households living in privately owned, newly constructed or rehabilitated rental housing. HUD commits to pay "fair market rents" for 20 to 40 years for these units if the landlord agrees to rent to eligible low-income tenants.

#### -- Rent Supplement and Rental Assistance Payments (RAP):

- \* Provides additional assistance to 186,000 low-income tenants in privately owned housing. Both programs pay the landlord the difference between tenant rent contribution and market rent, although subsidies in the Rent Supplement program are limited to no more than 70% of market rent.

#### -- Elderly and Handicapped Housing Direct Loan Program:

- \* Provides loans to non-profit organizations to build Section 8 subsidized housing for low-income elderly and handicapped tenants. Loans have been used to fund 120,000 units (most of which also receive Section 8 new construction subsidies).

o Coverage.

- HUD rental assistance programs currently subsidize approximately 2.9 million housing units for 8.3 million people.
- In addition, HUD also administers a number of programs that provide interest reduction subsidies.
- In total, HUD provides assistance to 3.5 million households, or 10.3 million people.

o Costs.

- From 1960 to 1973, the cost of subsidized housing assistance, increased eleven-fold -- from \$140 million to \$1.6 billion.
- In only the last 10 years, housing assistance has grown by more than five and a half times -- from \$1.6 billion in 1973 to an estimated \$9.3 billion in 1983. This is a 22-fold increase since 1960. The separate public housing operating subsidy program (included in these figures) has grown from about \$350 million to \$1.55 billion from 1973 to 1983.
- Even with the Administration's proposed revisions, housing assistance outlays are still estimated to increase by \$727 million next year.
- Without the proposed revisions, housing costs would be an additional \$445 million above the President's budget in 1984, and an estimated total of \$1.8 billion over the President's budget by 1987.

o Administration Action to Date.

-- For FY 1982:

\* President Carter had proposed:

- An appropriation of \$29.8 billion to support an additional 262,000 units of HUD subsidized housing, split 50/50 between newly constructed units and rent subsidies on existing units.
- No programmatic reforms.

\* President Reagan proposed:

- An appropriation of \$19.7 billion in support of an additional 175,000 units of HUD subsidized housing, 45 percent newly constructed units and 55 percent existing units.

- Increased rent payments -- raising rent from 25 to 30 percent of income -- for tenants in HUD subsidized housing, together with standardized and simplified procedures for determining income for eligibility and rent payments.

\* Congress approved:

- An appropriation of \$17.4 billion in support of 147,000 units -- 53 percent new and 47 percent existing [Actual program resulted in use of \$12.6 billion (net of rescission) in new authority in support of 89,000 units split 45/55 between new and existing].
- Increasing rents to 30 percent of income and targeting subsidies to lower income households by reducing the income eligibility ceiling from 80 percent of area median income to 50 percent.

-- For FY 1983:

\* President Reagan proposed:

- No new appropriations for subsidized housing, a \$2.4 billion rescission of prior year spending authority promised upon contract cancellations, and "swapping" Section 8 Existing Housing program subsidies for older more expensive rental subsidies (the 1983 budget called for a net reduction in the number of units scheduled to come under subsidy by 1987).
- That the Section 8 Existing Housing program be reformed to make it into a modified housing assistance certificates or "voucher" program.
- Counting food stamps as income in assessing rents for HUD subsidized tenants.

\* Congress approved:

- A new appropriation of \$8.7 billion that, together with prior year funds for cancelled contracts, should fund 108,000 more units of subsidized housing -- all but 16,000 being existing units.

The President's Proposals for FY 1984.

o For Public Housing:

- Administration proposes that no additional public housing units be funded, although funding would continue for already committed units. New units are expected to replace losses, with the inventory remaining roughly constant at 1.2 million units.

- Public housing operating subsidies would be changed to a fair market rent (FMR) calculation basis and the separate modernization program would be gradually phased-out. The new FMR operating subsidy system should allow for maintenance and repair funding, comparable to the private rental market.
- o For Section 8 Existing Housing Program:
  - Administration proposes to eliminate rent ceilings for subsidized units and provide a housing certificate to the tenant to select the housing which best suits the tenant's needs.
  - The new program would be called the Section 8 "Housing Payment Certificate Program". (The "certificate" is the document issued to tenants which indicates the amount of HUD rent subsidy they will receive).
- o For Section 8 New Construction Program:
  - Except for 10,000 units built in conjunction with the Section 202 elderly housing loan program, the Administration proposes to terminate this program and reallocate some of the remaining funds that were going to it into the Housing Payment Certificate Program.
- o For Rent Supplement and RAP Programs:
  - Administration proposes to convert tenants in these programs to the Section 8 Existing Housing program, thereby providing a long-term solution for the inadequate funding mechanisms inherent in these programs and substantially reducing the rent burden of many of the Rent Supplement tenants.

#### Justification (General).

- o These reforms will reduce outlays for subsidized housing units from the present level of \$2,768 to \$2,430 per unit in FY 1988.
- o These reforms are expected to yield cumulative savings of \$2.5 billion between 1984 and 1988.

#### Justification (Specific).

##### o Public housing.

- This program is very expensive.
  - \* Operating subsidies are projected to exceed \$1.6 billion in budget authority in 1984.
  - \* Construction costs average \$63,000 per unit.

- The program's costs have been growing at an annual rate of 20%, whereas the percent of U.S. households living in substandard housing has declined from 25% in 1960 to 6% in 1980.
- The program has had the effect of concentrating low-income households in economically decaying central cities where job and economic opportunities are limited. The government's own policies have in effect contributed to denying the poor the right to choose where they shall live.
- Replacing present policies with the Section 8 Housing Payment Certificate Program will greatly reduce these problems.
  - \* Annual rent subsidies for existing housing (as opposed to new federal housing projects yet to be constructed) under Section 8 Housing Payment Certificate Program would average around \$2,000 per unit.
  - \* Recipients would have greater freedom of choice with regard to where they wanted to live.
- o Section 8 Existing Housing Program.
  - Costs under the current program are unnecessarily high. Rental costs for subsidized units exceed comparable private market units' costs by 26%, because landlords have an incentive to raise rents to the published "fair market rent" level, and tenants have no incentive to negotiate their own rents.
  - By providing fixed payment subsidy certificates to tenants under a Housing Certificate Program, tenants would have the incentive and the means to "shop around" for less expensive units.
- o Section 8 New Construction Program.
  - Changes will reduce unnecessary costs. The current annual subsidy -- averaging nearly \$4,000 per family and ranging as high as \$17,000 per family -- is needlessly high.
  - Rent subsidies can be provided much more efficiently by replacing this program with the Section 8 Housing Payment Certificate Program, the cost of which would average about \$2,000 per recipient per year.
- o Rent Supplement and RAP.
  - Folding this program into the Section 8 Existing Housing Program will consolidate similar administrative functions, and thereby reduce administrative costs.



Questions and Answers.

- o Insensitivity to the poor. With poverty levels on the rise, isn't it insensitive to cut back on programs that have no purpose other than to provide decent housing for the poor, the handicapped, and the elderly?
  - The major problem confronting the poor today is not inadequate housing, but inadequate income. The Section 8 Housing Payment Certificate Program is designed to meet that inadequacy by targeting these subsidies to the tenant instead of the landlord. This will:
    - \* Give tenants an incentive to "shop around" for less expensive housing units of comparable quality to get the most for their money.
    - \* Give low-income families greater freedom to choose where they want to live.
  - The point is this: Compassion cannot be measured by the amount of federal dollars spent. The real measure is the success with which the Administration is able to meet the needs of low-income Americans; the President's proposal will do this.
- o Number of poor hurt. As a result of the Reagan cutbacks, how many millions of poor Americans will be denied adequate housing in the year ahead?
  - Under the Administration's proposals, 3.7 million households would receive HUD-assisted housing subsidies in 1983, and it is projected that this number will rise by 400,000 to 4.1 million in 1985. In contrast, only 3.3 million households received assistance in 1981.
  - Outlays for subsidized housing would continue to rise, from \$6.7 billion in 1981 to just over \$10 billion in 1984 -- or by more than half since President Reagan took office.
    - \* This is because the Administration will fulfill existing commitments to build new housing units, while at the same time making necessary economies to bring costs under control in the future.
- o The private sector can't do the job. If the federal government gets out of housing construction entirely, what assurance is there that the poor will be able to find affordable living quarters?
  - Again, the issue is not adequate housing, but adequate income.
  - There is no nationwide rental housing shortage.

- \* The vacancy rate for rental housing nationwide has exceeded 5% for the last three years.
- \* To the extent that there are spot shortages of rental housing in certain areas, the administration has proposed both a new Rental Rehabilitation Grant program and that new rental housing construction be an eligible activity for Community Development Block Grants.
- The administration's rent subsidy plan will guarantee that the poor have access to the ample supply of existing rental units.
- o Discriminating against the poor. Doesn't the Administration's recent policy of increasing rent across-the-board for federally-owned or subsidized housing and its proposal to count food stamps as part of a tenant's income unjustly discriminate against the poor?
  - Without small 1% of income per year across-the-board increases, many households would be allowed to pay well below 30% of their cash and cash-equivalent income for rent. This would be unfair to unsubsidized low-income households which generally must pay more.
  - Counting food stamps as income merely gives a more accurate accounting of the total cash and cash-equivalent resources available to low-income households for purposes of determining their genuine need for federal assistance.

#

## JOB TRAINING AND EMPLOYMENT

### History.

The federal government initiated job training and employment programs in the 1930s. The public jobs of that era were widely criticized as "make-work," and were generally ineffective in treating the root causes of the unemployment problem.

With the return of prosperity after World War II, the federal government largely withdrew from jobs creation, although not from job training. Yet the government spent only \$209 million for all employment and training programs in 1963.

Job training programs were greatly expanded during the "Great Society" era of the mid-1960s. With the passage of the Emergency Employment Act of 1971 and the Emergency Jobs and Unemployment Assistance Act of 1974, there was a reversion of policy from job training back to direct provision of jobs. In 1964, public jobs accounted for none of the employment and training dollars spent. By 1980, public jobs accounted for more than half.

### o The Program.

- The federal government's principal employment and training programs were brought together under the Comprehensive Employment and Training Act of 1973. (CETA).
- \* These included the Job Corps training program (established in 1964) and the public jobs program established by the Emergency Employment Act of 1971.
- \* Subsequent legislation, in 1974 and 1978, expanded the jobs creation role of CETA, and put the Young Adult Conservation Corps (established 1977) and the Summer Youth Employment Program (established 1965) under CETA auspices.
- CETA programs were administered by units called prime sponsors, which are states, cities, and counties, or combinations thereof of over 100,000 population.
- Grants to prime sponsors were used to provide various kinds of training, counseling, and supportive services to unemployed and economically disadvantaged individuals.
- CETA has also provided subsidized public jobs, stipends, and other income support to those individuals who participated in federally-sponsored job experience or training.

o Coverage.

- CETA was expanded in 1974 to to allow for the creation of more public jobs in FY 1975. In that year, 2.8 million people were enrolled in the program.
- By 1978, there were 4.5 million participants in CETA.
- In 1982, approximately 1.3 million people participated in CETA.

o Costs.

- In 1968, at the height of the Great Society, federal job training and employment programs cost \$1.6 billion.
- By 1974, the amount had nearly doubled to \$3.1 billion.
- This amount more than tripled in the first 1978 Carter budget, to \$10.8 billion; more than half of that amount was for subsidized jobs.

o Administration Action to Date.

-- For FY 1982:

\* President Carter had proposed funding CETA programs at a level of \$9.6 billion, including:

- \$4 billion to give "economically disadvantaged" unemployed persons public service jobs. (The federal government subsidized 313,000 such jobs in FY 1981; the Carter Administration would have increased that number to 340,000 in FY 1982.)
- \$1.1 billion for a new youth initiative program, to consolidate and expand efforts to provide subsidized jobs, education, and training to disadvantaged young people.

-- Abolition of the Young Adult Conservation Corps (YACC).

\* President Reagan proposed a major overhaul of the whole CETA concept.

- The President called for:

- a) Eliminating the public service employment program.
- b) Shelving the costly Carter youth initiative.
- c) Abolishing YACC.

- The President requested a total budget of \$3.9 billion for remaining CETA programs.

\* Congress approved:

- Eliminating the public service employment programs and YACC.
- A total budget of \$3.8 billion for the remaining CETA programs.

-- For FY 1983:

- \* The statutory authority for appropriations for CETA expired at the end of FY 1982.
- \* President Reagan proposed an alternative to CETA, with total funding of \$2.4 billion, that would:
  - Replace all the separate grants to states and localities with a single block grant, totalling \$1.8 billion in FY 1983.
    - a) Rely primarily on the private sector to develop and administer programs at the local level.
    - b) Require that 75% of resources be spent on training, as opposed to 18% under CETA.
  - Continue the Job Corps at a reduced level of \$387 million.
  - Provide \$200 million of assistance to special groups to replace the other nationally administered programs.
  - Specify that none of the grant or other nationally administered programs would pay stipends, wages, or other forms of income support, allowing service to the same number of people as in the programs that would be replaced.
- \* Congress responded by passing the Job Training Partnership Act of 1982 (JTPA), which incorporated the principal features of the President's proposal, including:
  - Grants to states.
  - A primary role for the private sector.
  - The requirement that 70% of program resources be spent on actual training.

\* JTPA also provided for:

- Continuation of the Job Corps as a separate program.
- A new grant program to assist displaced workers in getting training for new occupations.

\* Congress, however, delayed full implementation of the President's program until 1984 by providing that FY 1983 would be a transition year, during which the old CETA programs would continue to be funded at a total of \$4.0 billion.

-- Beginning in FY 1984:

- \* Resources for most job training programs will be available through grants to the states.
  - Resources will be allocated to service areas with populations of 200,000 or more, designated by state governors.
  - Programs will be developed and administered by local private industry councils (PICs), working in cooperation with local governments.
- \* Three grants -- a block grant for training disadvantaged youth and adults, one for SYEP, and one for displaced workers -- will be provided to the states.
  - 70% of resources must be spent on training.
  - Only 30% may be spent on support services, administration, and stipends.
- \* The Job Corps training program will be continued.

The President's Proposals for FY 1984.

- o Block grants to the states.
  - Funding of \$1.9 billion.
- o Summer jobs.
  - Funding of \$638 million for SYEP.
- o Assistance to displaced workers.
  - Funding of \$223 million -- a doubling in funding from last year.

- o Job Corps.
  - Funding of \$553 million to train more more than 80,000 severely disadvantaged youths.
  - This is more than were assisted in 1980, and about the same number as were assisted in 1983.
- o Other training programs.
  - Funding of \$230 million for other job-related efforts, including training programs for veterans, native Americans, and migrant workers, and labor market information development.
- o A bipartisan jobs bill recently signed into law with three major provisions.
  - More than \$4.4 billion in accelerated funding of construction projects already underway.
  - \$5.3 billion for unemployment insurance benefits.
  - \$216 million for humanitarian assistance for the unemployed.
- o Federal-state employment services.
  - Funding of \$858 million for employment services.
- o Proposed legislation to create a "youth employment opportunity wage" for youth under age 22.
  - This would be in effect a special minimum wage for youth of \$2.50 an hour, 25% below the regular minimum wage of \$3.35.
  - This wage would be effective between May 1 and September 30.
- o Legislation by which eligible workers who have exhausted their unemployment benefits would qualify for vouchers (good for jobs begun by March 31, 1984) which would entitle an employer hiring them to a tax credit.
  - Individuals eligible for Federal supplemental compensation would have the option of converting their benefits into vouchers.
  - These vouchers would entitle an employer hiring the individual on a full-time basis to receive a tax credit equal to the value of the voucher.
- o Legislation to permit the states to use 2% of their unemployment insurance tax receipts for training, job search, and relocation of unemployed workers.

Justification (General).o The nature of the unemployment problem.

- During nonrecession times, persons who leave their jobs, new entrants to the labor force looking for their first jobs, and reentrants, account for more of the unemployed than those who lose their jobs.
- Unemployment for most workers is usually less than ten weeks.
- The recent recession resulted in a longer period of unemployment for many workers; as many as one-quarter of the unemployed will have been involuntarily out of work for longer than six months 1983.
- This is due in part to the length and depth of the recession; to what economists call cyclical unemployment -- unemployment that results from cyclical downturns in economic activity.
- It is also due to structural unemployment -- unemployment that remains even after cyclical recoveries. Among the structural factors that create such unemployment are:
  - Inability of older industries to compete with foreign imports.
    - \* A mismatch between the skills of laid-off workers in declining industries, and the skills needed by rising new industries.
    - \* Barriers to labor market entry and mobility -- such as the minimum wage.

o Costly federal makework programs provide no real solutions to these problems.

- That approach has been tried many times before and has consistently failed.

The CETA program, the most recent example, spent \$57 billion over eight years, yet only 30% of participants were ever placed in jobs, and only half of these were placed in private sector jobs.

o The job training and employment programs proposed by President Reagan will:

- To provide help to more than 3 million unemployed in securing training or finding real jobs in the private sector.
- Reduce Administrative overhead.



- Reduce administrative overhead.
- Promote the economic growth that will create more than 5 million new jobs by the end of next year and more than 15 million by the end of 1988.

### Justification (Specific).

#### o Block grants to the states.

- The best way to ensure that training programs will prepare participants for jobs that actually exist is to have the business community play a pivotal role in the development of training programs. The block grant program provided for by the JTPA is structured toward that end.
- Under JTPA, 70% of resources will be spent on actual training; only 18% of CETA resources were spent on training.
- The block grant approach also ensures that programs will be managed by persons familiar with local needs, and that administrative costs will be held to a minimum.
- The proposed funding level will support 406,000 service/years, a one-third increase over programs in effect in FY 1983.

#### o Summer jobs.

- This proposed funding level will provide approximately 718,000 summer jobs for persons between the ages of 14 and 21 -- about the same number as last year.

#### o Assistance to dsplaced workers.

- The proposed funding level will assist nearly 100,000 displaced workers -- four to five times the number assisted by earlier programs.

#### o Jobs Corps.

- The proposed funding level will train more youths than were helped in 1980, and about the same number as were assisted in 1983.

#### o Bipartisan jobs bill.

- The accelerated construction funding will provide jobs now, when they are needed, without increasing long-term budget totals.
- The supplemental unemployment insurance benefits will assist workers who have exhausted unemployment payments.

-- Humanitarian aid will assist those unemployed workers for whom current federal programs cannot provide adequate assistance.

o Federal-state employment services.

-- The proposed funding level will maintain the same level of employment services as financed in FY 1983 under the previous system.

o Youth employment opportunity wage.

-- Permitting young people to work at the special youth employment opportunity wage allows them to compensate for lack of skills and experience when seeking jobs by offering their services at a lower rate.

\* This proposal allows young people to place their feet firmly on the first rung of the job ladder.

\* Once they have acquired skills and experience, they can command higher wages.

-- This proposal would open up between 150,000 and 640,000 new jobs for youth.

o Employment vouchers.

-- Under current law, no special tax incentives are provided to employers who hire individuals who have experienced long-term unemployment.

-- The legislation proposed by President Reagan would provide employers precisely such an incentive.

-- The vouchers would help more than 700,000 long-term unemployed workers secure new jobs over the next two years.

o Using unemployment receipts for training, research, and relocation.

This proposal will provide an added option for states to assist displaced workers, without requiring increased state spending.

Questions and Answers.

- o Persistently high unemployment. Unemployment is projected to remain at historically high levels in FY 1983 and 1984. Shouldn't the Administration initiate a full-scale jobs creation program like the WPA in response to this problem?
- History proves that the federal government cannot create jobs.
  - \* The federal government has no resources of its own; it must take money from the private sector through borrowing or taxation.
    - Thus the government destroys private jobs in the process of "creating" public jobs; since federal jobs are far more costly to create, the number of private sector jobs lost is greater than the number of public jobs generated.
    - Make-work jobs are especially wasteful, since they produce little of value to society.
  - \* The Works Progress Administration (WPA), in particular, did not work.
    - WPA employed a total of 8 million people between 1935 and 1943, but put many of them to "work" putting on plays and painting murals.
  - \* Ultimately, it took World War II to end the high unemployment levels of the Great Depression.
- The single most effective long-term cure for the unemployment problem is to pursue policies that foster sustained economic growth.
  - \* The economic program the Reagan Administration has put in place will produce the necessary economic growth to put millions of Americans back to work without reigniting inflation during the next two years.
  - \* Comparison to "jobs" program.
    - Growth will create more than 5 million new jobs by the end of next year.
    - In contrast, the "jobs bill" considered by Congress last December would have "created" a mere 300,000 public jobs, while destroying an even greater number of private sector jobs.
- o The right to a job. Doesn't the federal government have a responsibility to ensure that everyone who wants to work has a job?

- The President certainly believes that everyone who wants to work should be able to do so.
- However, public jobs are not the answer; the government simply does not have the resources to "guarantee" everyone a job -- at least without sending the economy into hyperinflation or imposing social controls antithetical to the American principles of freedom.
- It is better for the unemployed for the government to foster conditions for long-term non-inflationary growth.
- o The bipartisan bill. How does the accelerated construction measure, which the President has signed, differ from "jobs creation" legislation of which he disapproves?
  - These will not be make-work jobs, but jobs in projects previously determined to be necessary.
  - Because the expenditures are already planned, total federal spending over the next few years will not be increased -- but the jobs will be provided now, when they are needed.
- o Objections to the youth employment opportunity wage. Will a lower minimum wage for youth reduce unemployment, or just throw a different group of people out of work? Won't employers fire adult workers in order to hire young people at the lower rate?
  - The President's proposal includes specific protections for current workers.
    - \* Employers could not lay off an adult worker and replace him with a youth at \$2.50 an hour.
    - \* Employers could not reduce the wage rate of a youth employed before May 1.
    - \* Violations of either protection would be subject to criminal and civil penalties contained in the Fair Labor Standards Act.
- o Net effect. Then what good is the special wage? How will young people be helped?
  - The youth employment wage will create more jobs for young people.
  - The number of jobs in our economy is not permanently fixed. There are many employers, particularly in the service sector of our economy, who would hire more unskilled workers if they did not have to pay the minimum wage.

- The youth employment opportunity wage would create between 150,000 and 640,000 jobs for youth.
- o Unfair to youth. Why should young people be forced to work for less than the minimum wage? Isn't that unfair?
  - No one will be "forced" to work for less than the minimum wage.
  - Instead, young people would have the opportunity to get training and work experience at jobs that would not exist if the full minimum wage were in effect.
  - To put it another way: Instead of being forced to be unemployed at \$3.35 an hour, young people would have the opportunity to work at \$2.50 an hour if they wanted to.
- o Other help for the unemployed. What else has the Administration done to help the unemployed?
  - The Administration has already extended unemployment benefits three times.
  - The President supported the Export Trading Company Act, enacted into law last year, which is expected to help create up to 300,000 new jobs.
  - The Administration has proposed the creation of enterprise zones to create jobs -- particularly jobs for disadvantaged workers -- in the nation's depressed urban areas and rural towns and to rebuild and revitalize these areas.
    - \* The legislation would create a series of federal tax incentives and provide federal regulatory relief.
    - \* State and local governments would be encouraged to offer additional tax and regulatory initiatives.

## SOCIAL SECURITY

### History.

In a June 8, 1934, message to Congress, President Roosevelt indicated that he was planning a national social insurance system to provide against "misfortunes which cannot be wholly eliminated in this man-made world of ours."

The following year, Congress enacted the Social Security Act of 1935.

### o The Program.

-- Old Age, Survivors, Disability, and Health Insurance (OASDHI), which provides benefits through three major trust funds:

- \* Old Age and Survivors Insurance (OASI), a system under which people contribute payroll taxes while working in order to collect benefits when they retire, or to enable their survivors to receive benefits in the event of the worker's death.
- \* Disability Insurance (DI), established in 1956, which provides benefits in the event the covered worker is totally disabled and unable to do any work for a year or more.
- \* Hospital Insurance (HI), established in 1965, which covers hospital insurance costs for individuals who are either disabled for a period of 48 months or more or over 65 years old.

### o Program Changes.

- In 1939, even before the first benefits were paid out, Congress made survivors and dependents of insured workers, not just the workers themselves, eligible for future monthly retirement benefits.
- Amendments in 1950 and 1954 expanded the system from one largely for urban workers to one that included virtually all of the labor force, including self-employed, farm, and domestic service workers as well as many employees of state and local governments and non-profit organizations.
- In 1956, disability insurance was added for the long-term and permanently disabled. This placed the "D" in OASDHI.
- Beginning in 1956, women were allowed to retire as early as age 62 -- rather than 65 -- and receive reduced benefits. In 1961, men were included in this provision.

- Later amendments allowed disabled widows and widowers to received reduced payments as early as age 50, and non-disabled widows and widowers at age 60.
- In 1972, automatic COLAs were enacted, taking effect in 1975.
- In 1977, the previous Administration proposed, and Congress enacted, a change in the method of indexing benefits in order to eliminate overcompensation for inflation.
- During that year, the previous Administration also proposed, and Congress enacted, major increases in tax rates. The tax increase was spread out through 1990.

o Costs.

-- Total costs.

\* In 1962, Social Security OASDI outlays totaled \$14 billion.

\* In 1970, the level was \$29.8 billion.

\* And in FY 1983, \$168.0 billion.

-- Share of budget and GNP.

\* In 1962, Social Security accounted for 13.1% of the federal budget and 2.6% of GNP.

\* In 1970, it accounted for 15.2% of the budget and 3.1% of GNP.

\* In FY 1983, the level is 20.9% of the budget and 5.3% of GNP.

-- Tax rates.

\* In 1962, the maximum Social Security tax rate for each of employers and employees was 3.125% on an earnings base of \$4,800.

\* In 1970, the maximum was 4.8% on \$7,800.

\* And in 1983, it is 6.7% on a \$35,700 earnings base.

o Coverage.

- The number of beneficiaries increased from 3.5 million in 1950 to 14.8 million in 1960. In 1983, approximately 36 million Americans will receive Social Security benefits.
- The covered worker-beneficiary ratio was 36-to-1 in 1945. It was 13.9-to-1 in 1950. It was 4.9-to-1 in 1960. And in 1983, there are slightly more than 3 workers paying into the system for each person receiving benefits.
- For all retired workers, monthly benefit levels averaged \$76.19 in 1962. They averaged \$118.10 in 1970. And the average benefit level for a retired worker alone is \$408 in FY 1983.

o Administration Action to Date.

-- For FY 1982:

\* This Administration proposed, and Congress enacted, significant reforms through the Omnibus Budget Reconciliation Act of 1981, including:

- Elimination of benefits for new adult students and phase-out of benefits to current adult students over four years.
- Payment of lump-sum death benefits only to survivors and not directly to estates or funeral homes.
- Integration of disability insurance benefits with other public disability payments, and elimination of public disability benefits which exceed a worker's pre-disability take-home pay, adjusted for inflation.

\* Later in 1981, the Administration proposed, and Congress enacted, more reforms, including:

- Provision for inter-fund borrowing, allowing the greatly depleted OASI trust fund to borrow from the DI and HI trust funds through December 31, 1982, with provision for repayment with interest. This borrowing was allowed to facilitate benefit payments through June 1983.
- Extension of Social Security payroll taxation to the first six months of sick pay.



- For FY 1983, the Administration proposed, and Congress enacted, Social Security reforms in the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), including:
  - \* Inclusion of Federal employees for HI portion of Social Security (Medicare), effective January 1, 1983.
  - \* Allowances for reporting tip income for employers with ten or more employees for Social Security purposes.
  - \* Indefinite extension of interim provisions first enacted in the Revenue Act of 1978 under which taxpayers who had a reasonable basis for not treating workers as employees in the past could continue to do so without incurring federal Social Security or unemployment compensation tax liabilities.

#### The President's Proposals for FY 1984.

- o The President endorsed a bipartisan recommendation by the National Commission on Social Security Reform to address the solvency of the Social Security system. The Congress passed this package substantially as proposed, and the President signed the Social Security Amendments of 1983 into law on April 20, 1983.
- o The main elements of the package are:
  - Raise \$25 billion by covering all non-profit and new federal employees under Social Security, and ban withdrawal from coverage by State and local employers.
  - Raise \$27 billion by counting half of Social Security benefits as taxable income for taxpayers with adjusted gross incomes in excess of \$25,000 for an individual and \$32,000 for a couple, and credit the revenues raised to the OASDI trust funds.
  - Raise \$39 billion by advancing the OASDI tax rate increase scheduled for 1985 to 1984, and provide a refundable tax credit for the year 1984 for the part of the employee rate that is rescheduled, and advancing 72% of the 1990 rate increase to 1988.
  - Save \$39 billion by delaying the Social Security COLA for six months, making the increase payable in January instead of July.
  - Raise the self-employment OASDI tax rate by one-third, making it comparable to the combined employer-employee rate, and permit a credit initially and later a deduction for part of the tax.
  - Raise \$18 billion through a "catch-up" federal general revenues payment to the Social Security trust funds for past military service and making future payments on a timely basis.

- Improve equity by removing certain gender-based distinctions affecting widows, widowers, divorced spouses and survivors, and eliminating "windfall" benefits for future retirees with pensions from non-covered employment.
- Provide incentives for later retirement for those between ages 65 and 70 by gradually increasing from 3% to 8% the delayed retirement credit phased in over the years 1990-2010.

#### Justification (General).

- o To make the system solvent.
  - The OASI trust fund was no longer operating on a sound financial basis.
  - Without corrective legislation in the very near future, the fund would have been unable to make benefit payments on time beginning no later than mid-1983.
  - Under previous law, and on the basis of any reasonable set of economic assumptions, the expenditures of the OASI program would have continued to exceed income from payroll taxes and other sources through at least 1986.
  - The enacted legislation will correct these critical problems.
- o To correct the trust fund's shortfalls.
  - For the short-term, the enacted legislation will reduce the shortfall by an estimated \$166 billion through 1989 -- enough to make up the funding gap the Social Security Commission had foreseen through 1990 -- and it is projected to restore trust fund balances to a safer reserve level.
  - For the long-term, the legislation eliminates the 75-year shortfall identified by both the Commission and the 1982 Trustees Report.
- o The legislation contains some elements which in isolation would not have been totally acceptable to the President, but were included in a package which was the best proposal which could have been agreed upon and enacted for the benefit of the Nation's workers and Social Security recipients.

**Justification (Specific).**

- o The inclusion of all non-profit and new federal civilian workers in the Social Security system.
  - The additional OASDI taxes paid on behalf of the newly-covered workers over the long run will exceed, on the average, the additional benefits that result from such employment, thereby improving the Social Security system's cash-flow position.
  - This occurs because many federal workers receive Social Security benefits upon their retirement by having worked a short time in the private sector; they should be required to contribute to the system as well, and their windfalls should be eliminated.
  - Present federal workers will not be affected by this recommendation, and the financing of their benefits over the long run will not be adversely affected.
  - \* This recommendation would benefit the system by \$20 billion between 1984 and 1989.
- o Counting half of Social Security benefits as taxable income for higher income recipients.
  - This aspect of the legislation will treat Social Security benefits for high-income recipients in much the same way as private pension income is treated under the Internal Revenue Code.
  - This provision will affect only about 10% of OASDI beneficiaries.
- o Advancing the current law Social Security tax increases.
  - These are not new taxes, but only minor accelerations of taxes that are already in the law.
  - The taxes will have only a small effect on the overall economy, but a major effect on the solvency of the Social Security system.
- o Delaying the COLA.
  - Social Security benefits will not be reduced in any way whatsoever; increases in their levels will just be postponed six months.
  - The current low rates of inflation ensure that the COLA delay will have no significant adverse effect on Social Security recipients.

-- Low-income elderly -- those receiving both Social Security and Supplemental Security Income benefits -- will be further protected by an increase in the SSI disregard provision from the present \$20 to \$50 per month.

o Increasing the self-employment Social Security tax.

-- This provision will put self-employed individuals on the same basis as employees.

-- Previously, the self-employed had contributed less into the system on their behalf than has been contributed jointly by employers and employees on the latter's behalf, but had received equal benefits.

### Questions and Answers.

- o Fairness. Hasn't the Administration been callous in its treatment of women and poor elderly people who depend on the Social Security system for their survival?
  - Not at all. The legislation exhibits compassion toward both of these groups.
  - The following provisions, which are primarily designed to benefit women, were included in the reform package even though these provisions add more cost to the system at a time when savings are being sought.
    - \* The law previously permitted the continuation of benefits for surviving spouses who remarry after age 60. The legislation permits the continuation of benefits also for:
      - Disabled surviving spouses aged 50-59.
      - Disabled divorced surviving spouses aged 50-59.
      - Divorced surviving spouses aged 60 and over.
    - \* Spouse benefits for those who have been divorced for a significant period of time will be payable at age 62 or over if the former spouse is eligible for benefits, whether or not the benefits have been claimed or whether they have been suspended for substantial employment.
    - \* The benefit rate for disabled widows and widowers aged 50-59 at disablement will be the same as that for non-disabled widows and widowers first claiming benefits at age 60, instead of the lower amount under present law. This change will be applicable to beneficiaries of this category who are on the rolls already as well as new recipients.
  - The legislation also demonstrates compassion for elderly people who depend on Social Security benefits for their livelihood.
    - \* No elderly recipient will have his or her benefits reduced.
    - \* The inclusion of 50% of Social Security benefits as taxable income for the elderly with substantial outside incomes will affect only 10% of elderly people -- those with the highest incomes -- whereas a more general benefit reduction would have harmed all recipients, including those with little or no outside income.

- o Employee tax increases. How can the Administration justify taking even more out of working men and women's paychecks?
  - The speed-up in OASDI tax rate increases for employers and employees affects only three calendar years.
    - \* In 1984, the tax rate will be 5.7% rather than the 5.4% scheduled under previous law. (The 1985-1987 rates will stay at the 5.7% level as scheduled under the previous law.)
    - \* In 1988 and 1989, the tax rate will rise to 6.06% rather than the 5.7% scheduled under the previous law. (In 1990 and beyond, the rates will be 6.2%, as mandated by present law.)
  - In 1984, a refundable income tax credit will be provided against the individual's Federal income tax liability so that he will pay no more in total than he would have under present law.
  - For 1988 and 1989, the tax increase amounts to a mere \$1.38 per week for a worker earning \$20,000 per year.
  - The amount of increase was minimized by two other actions to make sure employees contributing to the system are not unduely burdened:
    - \* The elimination of "windfall" benefits to individuals who spend most of their working careers in noncovered employment but who also become eligible for OASDI benefits as a result of relatively short periods in covered employment with other employers.
    - \* The requirement that self-employed workers pay an amount equal to the combined employer-employee tax rate.
- o General revenue financing. Aren't a number of the legislation's provisions actually thinly-disguised means of dipping into general revenues?
  - No. The Commission specifically rejected general revenue financing of Social Security.
  - Specific provisions, while appearing to "dip into general revenues," actually do not.
    - \* The crediting to Social Security of income taxes on half of some Social Security benefits: These recipients would not even be a part of general revenues were it not for the legislation.

- \* The refundable tax credit in 1984: This is not used to finance Social Security, but merely to ease the tax burden faced by employees when the 1985 Social Security tax increase is accelerated; it is thus an equity measure.
- \* The deductibility of the increased self-employment tax: This provision merely conforms deductibility for self-employed persons to that already enjoyed by employers.
- \* The military service credits have always been paid out of general revenues, so paying the present value of these long-standing entitlements does not represent a new "tap" on general revenues.
- \* Unnegotiated checks are trust fund monies held by the Treasury, which are now being returned to the trust funds.

## SOCIAL SERVICES

### History.

In 1909, President Theodore Roosevelt called for a White House Conference on Children and Youth. Out of that conference came recommendations to Congress concerning services for children and youth, and, eventually, passage of the Children's Bureau Act of 1912.

Since that time, the federal role in the provision of "social services" has grown with the addition of various titles of the Social Security Act of 1935. Today, the term social services is used to include services not only for youth but certain public services for families, the economically disadvantaged, the elderly and the handicapped.

### o Programs.

#### -- Social services block grant.

- \* Provides for various types of aid for the disadvantaged, including child day care, child protective services, foster care, homemaker services, family planning, preparation and delivery of meals, transportation, counselling, legal services, and substitute care and day care for adults.
- \* In FY 1973, the combined cost of the various categorical programs was \$1.6 billion. In FY 1981, the last year before the programs were combined into a block grant, the cost was \$2.6 billion.

#### -- Rehabilitation services.

- \* Makes grants to states for the vocational rehabilitation of physically and mentally handicapped individuals to help them become gainfully employed and live more independently.
- \* In FY 1973, the cost of rehabilitation services was \$699 million. In FY 1981, the cost was \$1 billion.

#### -- Community service programs.

- \* Provides aid to states through the Community Services Block Grant to help the poor avoid or escape long-term poverty, primarily through employment and education.
- \* In FY 1981, the budget for these programs was \$619 million.



-- Family social services.

\* Provides aid to the states for foster care, adoption assistance and a consolidated child welfare services program that combines funding for child welfare services and training.

\* In FY 1981, the budget for these programs was \$506 million.

-- Services for children, youth and families.

\* These programs are designed to improve the quality of services for low income, neglected, abused or homeless children.

\* Funding in this area is almost entirely for one program -- Head Start -- which assists community groups in providing comprehensive services for low-income pre-school children and their families.

\* In FY 1973, the cost of these programs was \$916 million. In FY 1981, the cost was \$1 billion.

-- Services for the elderly and other special groups.

\* Provides grants to state and local agencies that offer a wide range of services for older Americans, particularly those with the greatest needs. These services include transportation, legal services and the provision of meals served in a group setting or delivered to the home-bound.

\* In FY 1973, \$63 million was devoted to these programs. In FY 1981, budget authority was \$915 million.

-- Domestic volunteer programs.

\* ACTION and a small network of agencies attempt to stimulate volunteer services through technical assistance, demonstrations and small grants.

\* These programs provide personal aid to the poor, the handicapped, the elderly, and other groups such as Viet Nam veterans with special problems stemming from military service.

\* In FY 1973, the level of spending for these programs was \$78 million. In FY 1981, the level was \$150 million.

o Costs.

- In FY 1973, the federal government spent \$3.7 billion to aid the disadvantaged with social services programs.
- In FY 1981, the budget for these programs was \$6.5 billion.

o Administration Action to Date.

-- In FY 1982:

- \* President Carter requested \$7.2 billion.
- \* President Reagan requested \$5.8 billion, with significant savings to be accomplished through the proposed Social Services Block Grant.
- \* Congress approved \$6.1 billion, enacting the Social Services Block Grant.

-- For FY 1983:

- \* President Reagan requested \$5.0 billion, with savings to be accomplished through a proposed Child Welfare Block Grant.
- \* Congress approved \$6.4 billion, failing to enact the Child Welfare Block Grant.

The President's Proposals for FY 1984.

o Social services block grant.

- Maintain budget authority at \$2.44 billion for 1984.
- \* Allow the states maximum flexibility to select the activities that should be funded.
- \* Permit states to fund economic development, rural housing programs and other activities previously funded under the community services block grant, which is in its last stage of phase-out.

o Rehabilitation services.

- Maintain budget authority at the 1983 level of \$1 billion.
- Simplify administration and increase state flexibility in service delivery in the state grant program.

- Base the distribution of one-third of the grant funds to the states on their success rates at rehabilitating severely handicapped individuals. Continue to distribute the remaining two-thirds according to population.
- o Community service programs.
  - Provide \$3 million for the proposed close out of the Community Services Block Grant.
- o Family social services.
  - Increase budget authority from the 1983 level of \$560 million to \$601 million in 1984.
  - Consolidate child welfare services and training programs at the state level.
- o Services for children, youth and families.
  - Increase budget authority from the 1983 level of \$940 million to \$1.1 billion in 1984.
- o Services for the elderly and other special groups.
  - Reduce budget authority from the 1983 level of \$1.2 billion to \$1.1 billion in 1984.
  - Consolidate the Department of Labor's Senior Employment Program and the Department of Agriculture's Elderly Feeding Program into the Department of Health and Human Services' Older Americans Program.
- o Domestic volunteer programs.
  - Reduce budget authority from the 1983 level of \$129 million to \$110 million in 1984.
  - Eliminate the VISTA program.
  - Reduce overhead costs at ACTION from the 1983 level of \$25.8 million to \$18.1 million in 1984 primarily by reducing staffing.

#### Justification (General).

- o Maximize state responsibility for planning and delivering social services by giving them the flexibility to design programs that best meet their citizens' needs.
- 40% of social services spending would be through block grants in FY 1984.
- Legislative proposals will be submitted by the Administration to give states more flexibility in the aging and child welfare programs.

- o Maintain or expand coverage in those programs that effectively serve the needy and foster self-sufficiency while promoting management efficiency.
  - Increase Head Start enrollments in the most cost-effective, high quality projects. Funding would be provided to serve 424,900 children, 43,000 of whom are handicapped.
  - Maintain the FY 1983 level of delivering 190 million meals to some 9 million elderly persons each day.
  - Provide an array of services to more than 2 million children and their families.
  - Provide monthly subsidies to families adopting more than 3,000 children with special needs.
  - Continue to help states strengthen and unite families and find permanent homes for children who need to be adopted.
  - Continue reliance on volunteers to help the needy. Over 500,000 volunteers help out in Head Start classrooms, and another 300,000 serve meals to the elderly.

#### Justification (Specific).

- o Social services block grant.
  - Increased flexibility.
    - \* State and local governments are best equipped to determine the needs of their particular communities, to establish priorities, and to fashion and implement programs to meet those needs in the most effective and efficient way.
  - Permitting states to use social services funds to support activities previously funded under the community services block grant.
    - \* Social and economic needs are interrelated.
    - \* If dependency on government programs is to be reduced, both social and economic needs should be addressed.
- o Rehabilitation services.
  - The proposal to distribute a portion of the state grant funds according to performance is intended to encourage the states to concentrate more attention on the most severely disabled and to apply methods that are the most effective and the least time consuming.

o Community services programs.

- The provision of \$3 million for the community services programs is sufficient to close out activities funded under the Community Services Block Grant.
- This block grant is unnecessary because its functions are all provided for under the Social Services Block Grant.

o Family social services.

- The consolidation of service programs and training programs at the state level is designed to give states greater ability to apply resources where they would be most beneficial.
- The consolidation would also improve the effectiveness of program administration. Presently, services are provided at the state level while training programs are the responsibility of the federal government.
- The increase in budget authority would allow the states to provide services to a greater number of people.

o Services for children, youth and families.

- The increase in budget authority for these programs -- slightly more than \$100 million -- is primarily intended to ensure that the Head Start program serves at least as many children in FY 1984 as in the previous year by offsetting the effect of inflation.

o Services for the elderly and other special groups.

- The slight reduction in budget authority reflects improved program management and increases in voluntary contributions; service levels would be maintained.
- The consolidation of programs that are currently housed in different federal agencies into one program would further facilitate better administration.

o Domestic volunteer programs.

-- The proposed reduction in domestic volunteer programs primarily reflects the elimination of the VISTA program.

-- VISTA should be eliminated because:

\* The agency is not cost-effective, especially when compared to other domestic volunteer agencies.

- VISTA.

a) Expenditure per full-time volunteer: \$6,700.00 per year.

b) Return on each \$1 spent: \$2.18.

- Retired Senior Volunteer Program.

a) Expenditure per full-time volunteer: \$80.00 per year, or 48¢ per hour.

b) Return on each \$1.00 spent: \$7.00.

- Foster Grandparents.

a) Expenditure per full-time volunteer: \$2,847.00 per year.

b) Return on each \$1.00 spent: \$2.50.

\* The agency is less effective in meeting human needs than are other volunteer programs.

\* The agency's volunteer level of 1,750 service years is an insignificant portion of nationwide volunteer service.

Questions and Answers.

- o Reduction of the budget at the expense of the needy.  
Won't the cutbacks in social services programs drastically reduce support for those who are most vulnerable in our society?
  - In the critical areas, the President has not proposed a reduction, but an increase in spending. Under his proposal:
    - \* Budget authority for family social services grants to the states, which supports such programs as foster care and adoption assistance, would be increased from the FY 1983 level of \$560 million to \$601 million in FY 1984.
    - \* Budget authority for the children, youth and families account -- primarily consisting of Head Start -- would be increased from the FY 1983 level of \$940 million to \$1.1 billion in FY 1984.
  - Under the President's proposal, at least as many individuals will be served under these programs as in the past.
    - \* The number of Head Start enrollees would increase by 10%.
    - \* Though budget authority for programs that serve the elderly will be reduced, service levels will remain the same, due to improved management. The same number of elderly individuals will continue to receive meals.
- o Promoting family stability. Don't the Administration's proposals undercut family stability by cutting back on services that keep families together?
  - Sufficient funding is provided under the social services block grant to enable states to continue funding for day care at or above the FY 1983 level.
  - Ongoing programs that serve abused, neglected, runaway and homeless youth are funded sufficiently to serve at least as many as in the previous year. Two million children and their families will receive counselling and reunification services.

## STUDENT FINANCIAL AID

History.

Federal student financial aid programs, now in the Department of Education, were established to assist students who might otherwise be unable to attend college because of financial need. However, since their inception these programs have expanded far beyond their original purpose and now provide government subsidies to many undergraduate and graduate students who can and should pay their own way.

o Programs.

Federal postsecondary student financial aid falls into three major program areas:

-- Guaranteed Student Loans (GSL):

- \* Established in 1965 to provide low-interest loans to students from low- and moderate-income families.
- \* The current program completely subsidizes interest during a student's postsecondary education and any interest above 9% after graduation.
- \* In 1978, family income qualifications for obtaining loans were abolished. In 1981, income qualifications were added back only for students whose families had incomes over \$30,000.

--: Pell Grants:

- \* Established in 1972 as Basic Educational Opportunity Grants (BEOG) to provide direct aid to students with demonstrated financial need.
- \* Needs analysis provisions have been liberalized by legislation in recent years to loosen eligibility requirements and increase the size of awards.

--: Campus Based Aid:\* Includes:

- National Direct Student Loans (NDSL, begun in 1958), which provides loans at 5% interest.
- College Work-Study (begun in 1965), which pays 80% of a student's salary in federally-approved work-study programs.
- Supplemental Education Opportunity Grants (SEOG, established in 1965), which provides direct grants to needy students.
- \* Eligibility is determined for the students by the institution according to a need analysis using guidelines set by the federal government.



o Coverage.

- 10 years ago, only 14% of college students received government loans and grants, with nearly 60% of it going to low-income families.
- Now, more than 40% of the nation's 12.5 million degree-seeking college students receive such aid, with significant amounts of aid going to students from middle- and upper-income families.

o Costs.

- Overall costs for postsecondary student financial aid have grown enormously over the past 16 years. In 1965, outlays for such aid were \$250 million. By 1981, it had soared to \$6.5 billion, representing a 25-fold increase.
- Costs for GSLs increased seven-fold between 1977 and 1981, from \$357 million to \$2.5 billion.
- Pell Grants costs increased more than 75% over this period, from \$1.4 billion in 1977 to an estimated \$2.5 billion in 1981.
- Campus-based aid rose from \$963 million in 1977 to \$1.1 billion in 1981.

o Administration Action to Date.

-- For FY 1982:

- \* President Carter requested \$6.4 billion.
- \* President Reagan requested \$5.7 billion in budget authority, including program reforms as follows:
  - Guaranteed Student Loans.
    - a) Require a needs analysis for all applicants.
    - b) Eliminate in-school interest subsidies for all GSL borrowers.
    - c) Eliminate the administrative allowance of 10% per applicant that was paid to the institutions.
    - d) Allow the Secretary of Education to collect on all state guarantee agencies' unsecured defaults after the Department of Education had paid reinsurance claims.

- Pell Grants.

- a) Increase the maximum award from \$1,750 to \$1,800 in FY 1982.
- b) Require that a student contribute \$750 to his education before receiving a grant.
- c) Raise assessment rates on family discretionary income from 10.5% to 20%.

\* Congress approved \$6.6 billion, and acted on the President's programmatic reform proposals as follows:

- Guaranteed Student Loans.

- a) Approved the requiring of a needs analysis for students whose families earn more than \$30,000, rather than for all students as the President had requested.
- b) Enacted a 5% origination fee on new loans rather than approving the elimination of the in-school interest subsidy.
- c) Approved the elimination of the administrative allowance of 10% paid to the institutions.
- d) Approved the proposal to allow the Secretary of Education to act on defaults held by the state guarantee agencies.

- Pell Grants.

- a) Approved the increase in the maximum grant to \$1,800.
- b) Rejected the proposed self-help requirement.
- c) Rejected the proposal to increase assessment rates on family discretionary income from 10.5% to 20%, and instead increased the rates to 11%, 13%, 18% and 25% on increments of \$5,000 in discretionary income.

-- For FY 1983:

\* President Reagan requested \$4.3 billion in budget authority, including program reforms as follows:

- Guaranteed Student Loans.

- a) Increase origination fee charged on new student loans from 5% to 10%.
- b) Require all applicants to demonstrate need.

c) Limit graduate and professional students to borrowing from the less subsidized auxiliary loan program, and increase the amount they would be able to borrow in the auxiliary loan program to \$8,000 per year and \$40,000 over five years.

- Pell Grants.

a) Reduce or eliminate benefits to the highest income students by increasing the percentage of discretionary income that families are expected to contribute to the support of a student.

- Campus Based Aid.

a) Fund NDSL with funds received by repayments into its \$5 billion revolving loan fund; otherwise, provide no new funds.

b) Provide no funds for SEOG except for funds schools wish to transfer from their Work Study funding.

c) Focus College Work Study assistance on the neediest students from lower-income families.

\* Congress approved \$6.7 billion, but failed to enact any of the President's programmatic reform proposals.

The President's Proposals for FY 1984.

o Guaranteed Student Loans.

-- In line with declining interest rates and actual prior year loan volume, reduce budget authority from the 1983 level of \$3.1 billion to \$2.2 billion in 1984, without reducing loan volume.

-- Require that all students demonstrate need for assistance, as opposed to the current practice of applying a test only to students from families earning \$30,000 or more.

-- Increase loan origination fee from the current 5% to 10% of the loan for graduate students.

-- Require state grant agencies to return loan advances they have received from the federal government.

o Pell Grants.

- Increase budget authority from the 1983 level of \$2.4 billion to \$2.7 billion in 1984.
- Require that all students contribute at least \$800 or 40%, whichever is higher, of the cost of their education before receiving a Pell Grant.
  - \* The student contribution could be satisfied by work-study, summer or part-time earnings, loans or grants from private sources, or savings.
- Raise maximum amount that a student can receive from the current level of \$1,800 to \$3,000 in 1984.

o Campus Based Aid

- Increase budget for the College Work-Study program by 40%, from the 1983 level of \$590 million to \$850 million in 1984.
- Request no new capital for the National Direct Student Loan program. Through collections, \$550 million should be available for loans to 688,000 students in 1984.

o Education Savings Accounts.

- Permit the creation of special tax-exempt savings accounts into which parents could deposit money to be used for their children's education.
- Parents could deposit up to \$1,000 per year per child.
- Full use of these accounts would be available to families with annual adjusted incomes up to \$40,000, with partial benefits available to families with incomes up to \$60,000.

Justification (General).

- o Restore the primary role of the family and the student in meeting the responsibility for postsecondary education costs.
  - Because students and families are the primary beneficiaries of education, they and not the taxpayers should bear the major cost.

-- Yet:

\* Despite increased family incomes, families contributed 25% less to their children's education in 1981 than in 1978.

\* Under current law, students are able to assemble an aid package that requires them to make no contribution at all to their education.

o Target federal education programs to the neediest students.

-- The President's proposal to require that all applicants for Guaranteed Student Loans demonstrate need will ensure that GSL funds go only to those who really need them.

-- The proposed changes in the Pell Grant program will target more of the funds to students from families that earn less than \$12,000 per year.

\* In 1981, 66% of the students receiving Pell Grants were from families earning less than \$12,000 per year.

\* In 1984, the percentage is expected to be 73%.

-- The proposal to offer complete use of Education Savings Accounts to lower- and middle-income families, and to begin the phasing out use between \$40,000 and \$60,000 is designed to make sure this program provides maximum benefit to the families and students who need the help the most.

Justification (Specific).

o Guaranteed Student Loans.

-- The reduction in budget authority for GSL primarily reflects the substantial decline in Treasury Bill rates, from 12.2% in 1982 to a projected rate of 8% in 1984.

\* Still, total loan volume will increase; \$7.2 billion in loans will be made in 1984, as compared to \$6.6 billion in 1983.

-- The requirement that all students meet the needs test to qualify for GSLs will ensure that available monies go to the students with financial need.

\* If a family truly needs assistance, a needs test will only confirm this, and not reduce their assistance levels or deny them aid.

-- The higher loan origination fee is warranted because graduate students can be expected, on average, to earn a substantially higher income than the general population, and therefore should be able to pay more toward the interest costs of their subsidized loans.

o Pell Grants.

-- The proposal to require a minimum contribution by the student is intended to restore the primary roles of the family and the student in meeting the responsibility for postsecondary education costs.

\* Under current law, schools and students can assemble monies from as many as six different federal programs to pay for education costs in ways that require only a limited contribution from the family and none from the student.

\* The proposed reform ensures that all students make at least some contribution to their own education.

-- The proposed increase in the maximum possible award will open up new opportunities for low-income students to attend a wider range of schools.

o Campus Based Aid.

-- The additional funding for Work-Study will expand student employment opportunities on the campuses, in state and local government agencies, and in the private non-profit sector.

-- Thus, students will be more able to provide their expected self-help contribution to their education.

- The number of students participating in the Work-Study program is expected to increase from 810,000 in 1983 to 1.1 million in 1984.

- The number of participating institutions is expected to increase from 3,400 in 1983 to 3,600 in 1984.

\* With a 40% increase in the Work-Study budget, the average award will increase from \$725 in 1983 to \$800 in 1984 -- exactly matching the expected student contribution under the Pell Grant program.

Questions and Answers.

o Students losing aid. Will students lose aid under the Reagan proposals?

-- Some students may lose their eligibility to receive student aid. Those who do will be students from families that are too affluent to qualify under the needs test.

\* Those who need aid will continue to receive it.

-- The reduction in the number of awards allows for an increase in the size of awards to those with genuine financial need.

\* The size of the average Pell Grant award is expected to increase from the current level of \$968 in 1983 to \$1,300 in 1984 -- a more than one-third rise.

o Minimum contribution and neediest students. How will the very poorest be able to provide the minimum contribution?

-- Needy students in particular would be eligible for aid under the expanded College Work-Study program. The money such a student earns in the Work-Study program could be used to satisfy the minimum contribution requirement.

-- The student is encouraged, however, to apply earnings from summer employment and part-time employment, or loans or grants from private sources, when available, toward his own educational expenses. For many needy students, this would be an active option as well.

o Education Savings Accounts. Aren't these proposed tax-exempt savings accounts just another tax shelter for the rich?

-- No. These accounts are designed to help families with annual earnings below \$60,000 per year to pay the cost of their children's education.

-- Maximum tax benefits will be available only to families with annual incomes below \$40,000.

-- Even for a family in the 20% marginal tax bracket, the tax savings amount to \$200 per year per child -- a significant contribution to the children's higher education.

## UNEMPLOYMENT COMPENSATION

### History.

Unemployment compensation was first authorized under the Social Security Act of 1935. It provides benefit payments to those who lose their jobs through no fault of their own.

### o Programs.

#### -- Unemployment Insurance:

- \* Provides direct cash payments to individuals temporarily out of work and looking for jobs.
- \* Regular benefits are financed through a state payroll tax on employers. Extended benefits are financed one-half from state and one-half from federal taxes on employers.
- \* State and federal administrative costs are financed by a federal tax on employers.
- \* Benefit levels and the number of weeks a recipient is entitled to receive benefits varies from state to state. The benefit usually paid is 26 weeks for regular benefits, and 13 additional weeks for extended benefits in high unemployment states.

#### -- Trade Adjustment Assistance.

- \* Provides training costs, and job search and relocation allowances to workers whose loss of work is attributed, at least in part, to foreign imports. TAA also provides additional weeks of cash unemployment payments for such workers.
- \* TAA benefits equal the worker's weekly unemployment benefits and are paid to those who exhausted all their weeks of unemployment and were still not working. Such workers can receive a total of 52 weeks of unemployment and TAA benefits combined.

### o Coverage.

#### -- For Unemployment Insurance:

- \* About 97% of wage and salaried employment in the United States is covered by unemployment compensation programs.
- \* An estimated 4.8 million workers per week will receive unemployment benefits during 1983, and 3.4 million workers in 1984.



-- For Trade Adjustment Assistance:

- \* From April 1975 to March 1981, 1.3 million workers received TAA.
- \* In September 1982, slightly more than 8,000 workers were receiving TAA benefits.

o Costs.

-- For Unemployment Insurance:

- \* Total cost of benefits for this program are projected at \$32.7 billion for 1983.

-- For Trade Adjustment Assistance:

- \* TAA cost \$1.5 billion in 1981.
- \* The Omnibus Reconciliation Act of 1981 reduced the cash benefits portion of the program so that it cost only \$84 million in 1982.

o Administration Action to Date.

-- For FY 1982:

- \* President Carter had proposed:
  - To revise the calculation of the insured unemployment rate ("trigger rate") used to determine when extended benefits are payable.
  - To make unemployment insurance coverage of CETA public service employees optional rather than mandatory, and to prohibit the use of federal public service employment funds to pay such benefits.
- \* President Reagan proposed:
  - To target extended benefits on high unemployment states through revisions in the trigger rate calculation.
  - To prohibit the payment of extended benefits to those who did not work at least 20 weeks in the year that made them eligible for unemployment insurance.
  - To require workers who had received 13 weeks of regular benefits and whose prospects for returning to their previous line of work were not good to seek employment that provided wages at least equal to their benefit amount, or the minimum wage, whichever was higher.

- To terminate TAA effective September 30, 1983, and in the interim to restrict its use to actual employment adjustment problems.
- To make ineligible for Unemployment Compensation for Ex-Servicemembers those who voluntarily left the service, who were released or separated for cause, or who failed to reenlist when they could have done so.

\* Congress approved:

- All of President Reagan's proposed reforms for extended benefits.
- The proposed changes in Trade Adjustment Assistance for workers.
- The basic eligibility changes in Unemployment Compensation for Ex-Servicemembers.

-- For FY 1983:

\* President Reagan proposed:

- To round down the weekly unemployment benefit amount to the next lower dollar.
- To eliminate Trade Adjustment Assistance weekly cash benefits and concentrate instead on training, job search and relocation.
- To deny eligibility for unemployment benefits to ex-servicemembers who are not given an opportunity to reenlist because of a record of indiscipline or failure to maintain skill proficiency.

\* Congress approved:

- A change in federal payment to states for the 50% federal share of extended benefits aimed at encouraging states to round benefit amounts down to the next lower dollar.
- (No change in TAA weekly cash benefits.) A change in TAA certification criteria designed to make more workers eligible for TAA benefits.
- An expansion in coverage under Unemployment Compensation for Ex-Servicemembers that provides up to 13 weeks of benefits (after a 4-week waiting period) to those who complete their first full term of service (and to others under certain circumstances) and who are discharged under honorable conditions.

- A change in the income threshold at which unemployment benefits become taxable, from \$20,000 (single person) and \$25,000 (joint return) to \$12,000 (single) and \$18,000 (joint).
- With the President's support, a temporary program of Federal Supplemental Compensation (FSC) that provides additional weeks of unemployment benefits to those who have used up all their weeks of regular and, where available, extended benefits. Originally enacted to last through March 31, 1983, the program has twice been amended. At the President's request, the program was extended through September 1983 in the Social Security Act amendment of 1983.
  - a) FSC as enacted provided up to 10 weeks of additional benefits, but as amended it paid up to 16 weeks. A six-month extension of the program until September 30, 1983 provides up to 14 weeks of additional benefits for new claimants, and up to 10 more weeks to those who had used up all their FSC or were already collecting it on March 31, 1983.
  - b) The number of weeks available varies by state depending on the level of unemployment and whether the state has paid or is paying extended benefits.
- \* To supplement unemployment assistance over the short-term, President Reagan proposed a bi-partisan jobs bill with three major provisions.
  - \$4.4 billion in accelerated funding of construction projects already in the budget, intended to be spent in FY 1983.
  - \$5.3 billion to finance unemployment insurance benefits.
  - \$216 million for humanitarian assistance for the unemployed.
- \* Congress enacted:
  - \$4.4 billion in accelerated funding.
  - \$5.3 billion for unemployment benefits.
  - \$790 million in humanitarian assistance.

The President's Proposals for FY 1984.

o Unemployment Compensation.

-- Provide outlays of \$24.6 billion in 1984 -- \$8.1 billion less than 1983.

o Job vouchers.

-- Provide an option for FSC recipients to receive assistance in securing work through a system of tax credits to employers.

\* Under the proposal, those eligible for FSC would have the choice of receiving either the additional weeks of unemployment compensation under FSC, or a set of vouchers that would give anyone who hires them a tax credit of equal value to the unemployment compensation that would otherwise be paid.

\* The program would provide unemployment benefits from April 1 through September 30, 1983, with tax credits remaining available for jobs started by March 31, 1984.

\* The estimated benefit outlays for this proposal are \$2.8 billion in 1983.

\* The estimates of the tax revenue reduction for this proposal are \$453 million in 1984, and \$97 million in 1985.

o Unemployment insurance tax receipts.

-- Permit the states to devote 2% of their unemployment insurance tax receipts to training, job search, and relocation of unemployment workers.

Justification.

o Smaller outlays for unemployment compensation.

-- The reduction in proposed outlays is based on an expected decline in the unemployment rate from 10.2% in FY 1983 to 9.3% in FY 1984.

o Job voucher.

-- Workers who elect the voucher plan would receive full wages, rather than unemployment benefits that are designed to replace a portion (usually no more than half) of lost wages.

-- The tax credit would give employers a strong incentive to hire the long-term unemployed.

-- The unemployed would increase their prospects for long-term financial well-being and employment by working rather than remaining unemployed.

o Unemployment tax receipts.

-- Permitting states to use a portion of unemployment tax receipts for training, job search, and relocation will more rapidly and effectively increase the employability of those out of work than the payment of unemployment benefits alone.

-- Moving people permanently off the unemployment rolls and into private sector jobs will reduce long-term federal spending.

-- Because state governments are closer to their own unemployment problems, they can target assistance to areas of greatest need.

Questions and Answers.

- o TAA phaseout. At a time when American workers are still losing their jobs to imports, is it really fair to phase out TAA?
  - TAA has effectively been replaced by the Job Training Partnership Act of 1982.
    - \* JTPA consolidates federal efforts to retrain all displaced workers, whether they have lost their jobs because of imports or because of some other reason.
    - \* The Administration has proposed spending \$223 million in FY 1984 to retrain displaced workers, more than double the present amount.
    - \* This is a much fairer approach to the problem, since it does not treat workers displaced by imports as a privileged class of unemployed; being out of work is bad, regardless of the cause.
    - \* Moreover, assistance can be made available faster, since there is no need for a cumbersome bureaucratic process to determine the cause of dislocation.
- o Vouchers. Will the Administration's voucher plan do any good?
  - Given the significant tax break, employers will have a strong incentive to hire the long-term unemployed.
  - The Administration estimates that the plan could help as many as 700,000 unemployed persons get jobs.

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## VETERANS

### History.

The United States has historically shown great concern for its veterans, more so than many other nations. As early as the first Indian wars, colonial legislatures voted lifetime support for veterans who returned home unable to support themselves because of wounds sustained in battle.

During the Revolutionary War, the Continental Congress made it a national policy to provide pensions for disabled veterans, and for the widows and orphans of soldiers and sailors who died in battle.

Pensions and veterans care grew in dramatic spurts during the Civil War and World War I. In 1930, all government activities pertaining to veterans were consolidated in a single agency, the Veterans Administration.

At that time, there were about 4.7 million veterans in the United States. With the return of the draft during World War II, the nation's population of potential veteran-beneficiaries rose to 19 million.

To meet the needs of this greatly-enlarged population, and to assist the many returning veterans in re-adjusting to civilian life, Congress authorized a vocational rehabilitation program for disabled veterans in 1943, and passed the GI Bill in 1944. The latter provided educational and vocational training benefits, home loan guarantees, and other assistance. These benefits were continued and expanded during the Korean and Vietnam conflicts.

### o The Program.

-- Income security for veterans. In addition to Federal income security programs for the general population, such as social security, unemployment insurance, and food stamps, several VA programs help certain veterans and their survivors maintain their incomes when the veteran is disabled, aged, or diseased.

#### \* Service-connected compensation.

- Monthly compensation payments are provided to veterans with disabilities resulting from military service.
- The amount of the benefit depends on the degree to which average earnings of individuals with a particular disability are reduced.
- Payments are also made to survivors of veterans who

die from service-connected injuries.

\* Non-service-connected pensions.

- Pensions are provided to needy wartime-service veterans who are 65 or older or who have become disabled subsequent to their military service.
- Survivors of wartime-service veterans may also qualify for pension benefits based on financial need.

\* Burial and other benefits.

- Families of deceased wartime veterans who are to be buried in private cemeteries may receive an allowance to apply toward the purchase of burial plots.
- Families of deceased veterans who were receiving compensation or pensions also receive burial benefits to assist in defraying funeral expenses.

\* Insurance programs.

- The Veterans Administration offers life insurance for veterans.

-- Veterans education, training, and rehabilitation.

\* The GI bill provides education benefits ranging from college courses to vocational and on-the-job training.

- These benefits help eligible veterans make the transition from military to civilian life by assisting them in obtaining the education they might have received had they not entered military service.
- Active duty servicepersons and widows and children of veterans who have died or been totally disabled in military service are also eligible for these benefits.

\* Individuals who entered military service after 1976 are eligible for the post-Vietnam-era education program, which allows them to set aside \$25 to \$100 from their monthly pay to finance future education.

- These amounts are matched by the government on a two-for-one basis and returned to them in education payments after they are discharged.



-- Hospital and medical care for veterans.

\* The Veterans Administration provides hospital and medical care to veterans by operating a nationwide medical care system consisting of 172 hospitals, 226 outpatient clinics, 101 nursing homes, and 16 domiciliary facilities.

-- Veterans housing.

\* VA mortgage loan guarantees and direct loan programs assist veterans in buying homes.

o Coverage.

-- Since the first GI Bill became effective in 1944, almost 19 million veterans have taken training under some VA program; more than 8 million have been instructed at college level.

\* The number of persons training under VA educational programs peaked in 1976 at 3.0 million.

\* The 1982 figure was 906,000.

-- The GI Bill also has made possible more than \$200.0 billion in VA-guaranteed home loans for 10.9 million World War II, Korean conflict, post-Korean, and Vietnam-era veterans.

-- Nearly 2.3 million veterans currently receive some level of disability compensation.

o Costs.

-- Total outlays for veterans benefits more than doubled since the start of last decade -- from \$8.7 billion in FY 1970 to \$23.9 billion in FY 1982.

-- Two-thirds of veterans expenditures go to benefit programs, with nearly 30% devoted to medical programs.

o Administration Action to Date.

-- For FY 1982:

\* President Carter proposed total outlays for veterans benefits of \$24.4 billion.

\* President Reagan proposed \$23.6 billion.

- \* Congress appropriations resulted in outlays of \$23.9 billion.
- During 1981, President Reagan signed into law several bills that enlarged benefits to veterans, including:
  - \* Medical care for veterans with disabilities resulting from exposure to agent orange and low-level ionizing radiation.
  - \* Cost-of-living increases for veterans being compensated for service-connected disabilities.
  - \* Two-year extension of eligibility for GI bill training for educationally disadvantaged Vietnam veterans.
- For FY 1983:
  - \* President Reagan proposed total outlays of \$24.4 billion.
  - \* Congressional appropriations should result in outlays of \$24.4 billion.

#### The President's Proposals for FY 1984.

- o The Administration proposes total outlays of \$25.7 billion for veterans' benefits in FY 1984.
- o Specific proposals:
  - A more than \$600 million increase in hospital and medical care for veterans.
  - A 5-1/2% cost-of-living (COLA) adjustment in disability benefits, effective April 1, 1984, reflecting a six-month delay in the present practice of providing COLAs each October.
  - A 5 1/2% increase in veterans' pensions, after a six-month delay.
    - \* The FY 1984 budget provides for a six-month delay in Social Security COLA adjustments, from June to December of each year.
    - \* This proposal results in an identical COLA delay for veterans pensions, since cost-of-living adjustments for these programs are linked by law.

-- An increase in the veterans credit program.

- \* Federal loan guarantees for veterans will rise to \$19.5 billion in 1983 and \$20.8 billion in 1984 (up from \$6.8 billion in 1982.)

Justification.

o Hospital and medical care.

-- The increased expenditures for medical care are particularly necessary to meet the needs of World War II-era veterans, the vast majority of whom will reach age 65 during the 1980s.

-- Veterans hospitals must be improved and enlarged, and hospital staffs expanded.

o FY 1984 COLA delay in disability pensions and benefits.

- \* These delays are consistent with current government efforts to delay increases or freeze spending on most income-support programs across the board.

- \* With the dramatic reduction of inflation rates under the Reagan Administration, COLA increases are far less urgent than they were in the days of high inflation, so that veterans will not be hurt by the COLA delay.

-- This policy will achieve budgetary restraint in the most equitable way possible by restraining the growth of these programs while minimizing the effects of such restraint on beneficiaries.

o Credit budget increase.

-- The increase in the credit budget for this program is due almost entirely to an increase in demand for home mortgage loan guarantees.

-- The anticipated continued decline in interest rates should further this trend.

Questions and Answers.

- o Delayed Disability COLA. How can you justify reducing benefits to veterans who served our country and suffered permanent injuries during their time of service?
  - Benefits are not being reduced, and increases are only being postponed by six months.
  - \* It is important to keep in mind that this COLA is not automatic, but subject to annual enactment by Congress.
  - The COLA delay is identical to that being requested for Social Security recipients.
  - The current low rate of inflation minimizes any adverse effect the COLA delay may have on veterans.
- o Pensions. Why can't veterans' pensions be exempt from the Social Security COLA freeze, since so much of their income is Social Security income that will also be subject to COLA delay?
  - The majority of beneficiaries under the pension program are widows of veterans.
  - \* Pensions are awarded to widows on the basis of need.
  - \* If a widow's income is below a certain level, she qualifies for a pension.
  - Unless pension income and Social Security income are simultaneously adusted for increases in the CPI, the Social Security COLA would be counted as additional income, and that could reduce some widows' pension benefits, or drive them off the rolls entirely.
  - To preserve current pension benefits without a structural change in the law, both the Social Security and veterans pension benefits must be delayed for an identical period.

## AGRICULTURE

### History

In 1862, Congress enacted legislation creating the Department of Agriculture. In 1889, the duties of the Department were enlarged and it was made the eighth executive department in the federal government.

The Department works to improve and maintain farm income and to develop and expand markets abroad for agricultural products. USDA also works to enhance the environment and to maintain agricultural production capacity by helping farmers protect the soil, water, forests and other natural resources. Through inspection and grading services, USDA safeguards and assures standards of quality in the daily food supply.

### o Major Programs.

#### -- Commodity Credit Corporation (CCC).

##### \* Includes:

- Non-recourse commodity loan program, which offers loans to farmers on their production at the time of harvest, and allows the farmer to deliver the commodity to the government at the loan price if the market price falls below that on which the loan was based. Thus, the price is guaranteed for the farmer. In FY 1973, total gross commodity loans were \$1.6 billion. In FY 1981, the level was \$5.6 billion. And in FY 1983, it is estimated at \$11.8 billion.
- Target prices protection, which offers farmers deficiency payments equal to an amount the actual market price falls below the target price, with the loan rate being the minimum price. Eligible crops include wheat, corn, sorghum, oats, barley, rice, and upland cotton. In FY 1973, there were no deficiency payments. In FY 1981, the level was zero as well. In FY 1983, it is estimated at \$2.8 billion.
- Production adjustment program require the farmer to reduce planted acreage in return for the above loan and target price protection. Set-aside, or acreage reduction programs require farm reductions without additional compensation. Land diversion programs provide farmers cash payments in return for acreage reductions. Payment-In-Kind (PIK) programs, begun by this Administration, provides farmers surplus stocks instead of cash payments in return for acreage reductions. In FY 1983, land diversion payments (cash) are estimated to cost \$1.1 billion.

- Dairy price support program purchases dairy products from processors in cases of overproduction, with processors guaranteeing the price for producers. CCC dairy purchases totaled \$158 million in FY 1973. In FY 1981, the level was \$2.0 billion. And in FY 1983, the level is estimated to be \$2.3 billion.
- Export credit program provides loan guarantees and direct loans intended for export sales that would not have occurred without the federal credit. The level of assistance for these programs was \$1.0 billion in FY 1973. It was \$1.5 billion in FY 1981. And in FY 1983, the level is \$5.2 billion.

\* Cost.

- In FY 1973, CCC net budget outlays equaled \$3.6 billion. In FY 1981, the net outlay level was \$4.0 billion. And in FY 1983, the level is estimated at \$21.2 billion -- a fivefold increase in just two years.

-- Farmers Home Administration (FMHA).

- \* Provides credit for those in rural America who are unable to get credit from other sources at reasonable rates and terms.
- \* There are a number of different loan programs ranging from loans for farm ownership and operating costs, recovery from emergency natural disasters, and community facility construction.
- \* In FY 1973, \$3.8 billion in loans and grants was provided for 319,000 farmers. In FY 1981, \$13.9 billion helped 324,000 farmers. In FY 1983, \$9.1 billion is helping 191,000 farmers.

-- Foreign Agricultural Service (FAS).

\* Functions.

- Promotes market development for agricultural exports through a network of counselors, attaches, and trade officers stationed overseas.
- Operates CCC export credit program described above.
- Provides P.L. 480 assistance -- low-interest long-term loans to foreign countries that consume U. S. commodity exports -- and makes direct donations of farm products in cases of disaster.

\* Cost.

- In FY 1973, the cost of market development functions was \$29.8 million. In FY 1981, the level was \$64.6 million. And in FY 1983, the level is \$91.1 million -- a tripling over the decade, and nearly a 50% increase in just two years.
- Outlays for export credit programs are included in the CCC budget.
- P.L. 480 outlays were \$754 million in FY 1973. In FY 1981 the net outlay level was \$1.3 billion. And in FY 1983, the level is estimated at \$1.0 billion.

-- Federal Crop Insurance Corporation (FCIC).

- \* Provides All-Risk Crop Insurance for unavoidable production losses due to any adverse weather conditions including drought, excessive rain, hail, winds, hurricanes, tornadoes and lightning, as well as unavoidable losses due to insect infestation, plant disease, floods, fires and earthquakes.
- \* The Federal Crop Insurance Act, passed by Congress in 1981, directed FCIC to expand this insurance program with the intention of substituting it for disaster programs in the near future. This expansion resulted in a virtual doubling of the number of acres insured, and resulted in a FY 1983 budget more than 8 times larger than that of FY 1981.
- \* In FY 1973, the budget for this program was \$15.6 million. By FY 1981, the level had increased to \$64 million. And in FY 1983, administrative and operational expenses for FCIC total \$529.4 million.

o Total Costs.

- In FY 1973, the gross program level -- the amount of money spent directly to help farmers and agricultural activities -- was \$14.5 billion.
- In FY 1981, the level was \$33.4 billion, a more than doubling in just eight years.
- And in FY 1983, the level is \$47.8 billion, an increase of more than 40% in just two years.

**Administration Action to Date.****-- For FY 1982:**

- \* President Carter requested \$28.3 billion.
- \* President Reagan requested \$28.7 billion, \$6 billion of which was added in a supplemental appropriation for CCC programs.
- \* Congress approved \$29.6 billion, which includes the \$6 billion supplemental.

**-- For FY 1983:**

- \* President Reagan requested:
  - Budget authority of \$33.2 billion.
  - Programs changes including the institution of a variety of user fees.
- \* Congress approved:
  - Budget authority of \$33.8 billion.
  - Program changes as requested by the Administration.

**The President's Proposals for FY 1984.**o Commodity Credit Corporation (CCC).

- Freeze target prices for wheat, feed grains, cotton and rice at current levels rather than increasing them annually as current law mandates.
- Implement the Payment-In-Kind (PIK) program, which was announced by the Administration in January 1983. This program provides farmers surplus commodities, in the sum of 80-95% of their normal production, instead of cash, in return for reducing production.

o Farmers Home Administration (FmHA).

- Reduce spending for FmHA programs from the 1983 level of \$9.1 billion to \$5.5 billion in 1984, primarily by refocusing resources more directly for activities appropriate in the agency's role as creditor of last resort.
- \* Reduce housing loans from \$3.3 billion in 1983 to \$300 million in 1984, primarily by replacing the direct loan program with an \$850 million block grant program to be administered by the states.
- \* Reduce emergency disaster loans from the 1983 level of \$2.0 billion to \$1.5 billion in 1984. These loans are made to enable farmers to continue their operations after experiencing natural disasters.



- \* Eliminate loans for recreation, irrigation, drainage, watershed, flood prevention, and resource conservation and development.
  - \* Increase operating loans from the 1983 level of \$1.5 billion to \$1.8 billion in 1984. Operating loans enable family farmers to cover the costs associated with planting their next crops. These loans may be used to pay for equipment, livestock, feed, seed, fertilizer and other farm operating needs.
- o Foreign Agricultural Service (FAS).
    - Increase the program level from \$81 million to \$91 million in 1984, primarily for increased market development activities.
  - o Federal Crop Insurance Corporation (FCIC).
    - Reduce budget authority from \$529.4 million in 1983 to the level of \$473.9 million in 1984.
      - Increase the appropriation for administration and operating expenses for the nationwide insurance program from the 1983 level of \$236.2 million to \$279 million in 1984.
      - Increase the appropriation for the premium subsidy program in the FCIC Fund from the 1983 level of \$115.6 million to \$170 million in 1984.
      - Request no additional appropriation for capital stock beyond the current level of \$400 million received over the FY 1982-83 period.

#### Justification (General).

- o Reduce federal spending.
  - The President's request for a total agriculture program level of \$40.6 billion for 1984, excluding food and nutrition programs, is \$13.3 billion less than the 1983 level.
- o Place restraints on one of the fastest growing areas of the budget.
  - Federal agricultural loan programs have skyrocketed.
    - \* Net outlays for CCC have grown from \$2.8 billion in 1980 to \$12 billion in 1982, a three-fold increase in just two years. Net outlays for 1983 are projected to reach \$21 billion, a 75% rise in a single year.
    - \* FmHA outlays have grown from \$3.6 billion in 1974 to \$13.9 billion in 1981, a three-fold increase in seven years.

-- The President's proposal would reduce CCC outlays to their 1982 level of \$12 billion, and cut FmHA outlays to \$5.5 billion.

o Promote more efficient, free-market agriculture.

-- Since 1933, the government's role has been to moderate extreme movements in farm prices and income which occur because of uncontrollable factors such as weather and general economic conditions. But government intervention has become so great as to be harmful to farmers and taxpayers alike.

\* When price support levels are set too high, as they presently are, farmers are given an incentive to increase production beyond what the market would bear.

\* Farmers abroad are also encouraged to increase production because foreign grain exporting countries set their prices based largely on U.S. prices.

\* With the resulting supply exceeding demand so greatly, lower prices are paid for the commodities.

\* These excessively lower prices, which are not in the farmers' financial best interest, typically lead to clamor for even more government intervention and even greater cost to the taxpayers.

-- The President's proposals, by reducing the extent to which Federal agricultural price supports interfere with the market, would improve farmer efficiency and long-term profitability while holding down government costs.

Justification (Specific).

o Commodity Credit Corporation.

-- Freezing price supports.

\* Net outlays for price support programs at CCC have grown out of hand, increasing from \$2.8 billion in 1980 and \$12 billion in 1982.

\* Holding target price levels for wheat, feed grains, cotton and rice in 1984 would reduce subsidy payments and still give producers a fair rate of return.

- The 1981 farm bill assumed a 22-30% cumulative increase in inflation between 1981 and 1985.

- Production costs now are expected to rise only 15% over that period.

- Therefore, a freeze of price supports at the 1983 level would be sufficient to cover the projected increases in farm production costs.
- The PIK program will provide substantial benefits to the taxpayers as well as farmers.
  - \* Taxpayers will benefit because:
    - Substitution of commodity transfers for cash payments will significantly reduce federal outlays that would otherwise result from the price support program.
    - Distribution of government-held commodities will reduce storage costs.
  - \* Farmers will benefit because:
    - Their receipt of commodities in the sum of 80-95% of their normal production will allow them to sell for profit in the marketplace with significantly reduced production costs.
    - The ability to conserve their lands for one or two crop seasons will allow farmers to repair and nourish them.
    - By reducing the great supply of commodity stocks, the PIK program provides the basis for future price recovery.
  - \* Export credit programs would be kept at a minimum for two major reasons:
    - The Administration anticipates that the world economy will in recovery by 1984, making a less ambitious program appropriate.
    - The Administration is emphasizing loan guarantees rather than direct loans. No federal outlays will be incurred under the export credit guarantee program unless claims must be paid by CCC to private banks that cannot obtain scheduled payments for credit they have extended to foreign participants in the program.
- o Farmers Home Administration.
  - The portfolio of outstanding loans and loan guarantees held by FmHA has increased from less than \$20 billion in 1976 to over \$60 billion in 1983 -- a tripling in seven years. The economy can no longer sustain such an outstanding loan burden.

-- The projected reductions for 1984 in emergency disaster loans reflect legislation approved in 1980 that gradually phases out all emergency loans in excess of the amount of the actual loss, and a proposed legislative change to restrict emergency disaster loans in areas where Federal Crop Insurance is generally available.

\* As the FCIC expands its crop insurance coverage, the emergency loan program at FmHA can be reduced correspondingly.

-- The reduction in spending for housing loans reflects the Administration's replacement of direct loans with a block grant to the states.

\* The block grant gives the states authority to provide housing assistance to very low income families in rural areas either through grants or subsidized loans.

\* It also provides flexibility for the states to structure housing assistance to meet the specific needs of their residents.

o Foreign Agricultural Service.

-- The increase of \$10 million will offset overseas inflationary costs and allow for real growth in foreign market development.

\* Activities will be specifically targeted to developing nations with the greatest potential for growth in agricultural trade.

o Federal Crop Insurance Corporation.

-- Increasing the appropriation for administrative and operating expenses by \$42.8 million: This increase is required for continued growth and expansion of the nationwide insurance program.

-- Increase the FY 1984 appropriation for the premium subsidy program in the FCIC Fund by \$54.4 million: This level reflects the Administration's expectation that farmer participation in the crop insurance program will increase through crop year 1983.

-- Requesting no additional capital stock beyond the current level: The 1983 appropriation is sufficient to provide for indemnity payments and other corporation expenses during 1984.

### Questions and Answers

- o Fairness of budget cuts. How can we afford to cut the agriculture budget by one-third when farm bankruptcies are at post-Depression highs?
  - The overall farm program budget is not being cut. The cost of the farm entitlement programs is expected to decline from the all-time high of \$21 billion in FY 1983.
  - Most important, however, farm operating loans will be increased by \$350 million.
    - \* Farm operating loans are most critical to farmers as a needed source of capital to continue their production.
    - \* With the proposed increase, more than 4,000 more loans will be made in 1984 than in 1983.
  - The Administration is rescheduling the debts of farmer borrowers who have shown good faith efforts to repay their loans and have good management practices.
    - \* Most operating loans are repaid over a period of 1 to 7 years.
    - \* The government is now allowing individual farmers to make lower payments over a period of up to 7 additional years and/or to be delinquent with USDA approval without foreclosure on their loans.
  - The Administration has added 646 more staff years in 1983 so farmers can receive more individualized attention and counselling.
- o Price supports. If price supports are frozen, how will farmers be able to make ends meet?
  - The Agriculture and Food Act of 1981 assumed escalating inflation through 1984 and 1985. But since inflation has not been increasing as rapidly as anticipated, a freeze of price supports at the 1983 levels is appropriate.
  - Supports at 1983 prices will still cover the projected increases in farm production costs in 1984.

- o Benefits of the PIK program. Isn't the PIK program just an easy way out of providing real help to the farmers?
  - PIK offers both long-term and short-term benefits to U. S. farmers.
    - \* Short-term
      - The PIK program compensates farmers for not growing more crops. By giving them 80-95% of the amount of the commodity they would normally have grown, the farmers are net gainers because they have incurred no production costs.
    - \* Long-term
      - One of the greatest factors limiting the U.S. farmer's ability to earn a reasonable profit is the large surplus of commodities that is far more than adequate to meet the nation's food demands.
      - When supply so greatly exceeds demand, prices are always low, unless government intervenes.
      - The PIK program will help reduce huge government-held surpluses, and thereby increase long-term agricultural profitability.
- o Effects of loan reductions. With funding for FmHA credit programs cut in 1984, won't fewer farmers be aided by loan programs?
  - Farmers will not be hurt by cuts in regular farm loan programs because no cuts will take place there. The funding level for these programs, which are primarily for farm operating costs, will actually be increased in 1984, allowing a rise in the number of loans from an estimated 61,735 in 1983 to about 67,455 in 1984.
  - Though the number of farmers served by the FmHA emergency disaster loan program will decrease by about 9,000 in 1984, coverage by the Federal Crop Insurance Corporation will more than adequately make up for Farmers Home Administration reductions.
    - \* The number of FCIC county programs will increase by about 900 in 1984.
    - \* The amount of insurance in force will increase from \$6.1 billion in 1983 to \$11 billion in 1984.
    - \* The number of insured acreage will almost double from 44 million in 1983 to 85.2 million in 1984, representing an increase in participation from 18% to 30%.

## EXPORT PROMOTION

### History.

The Commerce Department and other federal agencies offer a variety of programs to provide counselling to American businesses that wish to sell abroad. The budgetary impact of these programs is not significant.

The direct and indirect subsidy of U.S. exports is significant, however. Federal subsidies for this purpose are dispensed through the Export-Import Bank (Eximbank), which was established in 1934 and chartered as an independent government agency in 1945.

The Eximbank was founded largely as a response to predatory credit practices by the governments of foreign exporters. These governments often try to make their exports more attractive to buyers by offering below-market financing to pay for them. The Eximbank is a way of meeting this unfair competition head-on.

### o The Program.

- The Eximbank makes low-interest loans to foreign firms and governments that buy American goods and services.
- It also insures and guarantees repayment of loans made to foreign purchasers by other lending institutions.

### o Coverage.

- Eximbank's direct loans finance less than 2% of U.S. exports of goods and services.
- Eximbank's direct loans and loan guarantees combined assist only about 7% of U.S. exports of goods and services.
- Half of Eximbank's direct loans have gone to seven companies: Boeing, Westinghouse, McDonnell Douglas, Combustion Engineering, Lockheed, Western Electric, and General Electric.

### o Costs.

- The U.S. Treasury provided Eximbank with \$1 billion in seed capital when the bank was chartered in 1945.
  - \* This money has been lent and repaid with interest on many occasions since then, thus increasing Eximbank's available capital.

- Eximbank receives no annual appropriations from Congress; instead the bank is permitted to borrow from the U.S. Treasury up to limits prescribed by Congress through the appropriations process.
- \* Eximbank was intended to be self-sustaining. For years the Bank's internal policy was to operate in the black by lending the money it borrows from the Treasury at a rate higher than the rate at which it borrows, but lower than the rate charged by commercial banks.
- \* Unfortunately, because of rising interest rates, the bank since 1966 has been lending money at a lower rate than the rate it often is charged by the Treasury.
- \* In 1982, it operated at loss for the first time since it was founded. The amount of the loss was approximately \$160 million.
- The real cost of the Eximbank, however, is perhaps more accurately measured by the amount of money it siphons off from the capital pool in the form of loans that would not be made if it did not exist.
- \* In FY 1970, Eximbank made direct and indirect loans of \$2.2 billion, and issued loan guarantees of \$1.8 billion.
- \* In FY 1980, Eximbank made direct loans of \$4.4 billion, and issued loan guarantees of \$7.9 billion -- a tripling in just ten years.

o Administration Action to Date.

-- For FY 1982:

- \* President Carter proposed funding levels for Eximbank of \$5.0 billion for direct loans and \$9.4 billion for loan guarantees -- a nearly six-fold increase over 1977 levels.
- \* President Reagan proposed funding for Eximbank of \$4.4 billion for direct loans and \$8.2 billion for loan guarantees.
- \* Congress approved \$4.4 billion for direct loans and \$9.2 billion for loan guarantees.

-- For FY 1983:

- \* President Reagan proposed to reduce direct lending by \$570 million to \$3.8 billion, and hold loan guarantee authorizations to \$8 billion.



- \* Continuing resolutions passed by Congress maintained Eximbank authorizations at FY 1982 levels.

o The President's Proposals for FY 1984.

- The Administration proposes to reduce the limit on direct loans from \$4.4 billion to \$3.8 billion in FY 1984.
- \* The President will request supplemental authorization for direct loans of up to \$2.7 billion if necessary to meet officially-subsidized foreign competition.
- The Administration proposes to raise the limit on loan guarantees by 11% in FY 1984, from \$9 to \$10 billion.

Justification.

- o These proposals reflect recent political and economic developments that have altered the environment in which Eximbank operates.
- During the past year, the Administration succeeded in getting other industrialized nations to reduce export subsidies; Eximbank's direct loan program is now competitive with foreign programs.
- \* Lower interest rates will shift demand from direct loans to loan guarantees.
- \* The sharp decline in interest rates has reduced the need for Eximbank to offer direct loans at below-market rates.
- \* Rather than having to ask for direct loans at below-market rates, exporters will instead be able to ask Eximbank to guarantee market-rate loans obtained from private lending institutions, because the lower interest rates will now make these loans affordable.
- \* The loan guarantee increase proposed by the Administration is designed to accommodate this greater demand.

Questions and Answers

- o Protectionism. Loan guarantees, no less than direct loans, are government subsidies to favored businesses. Shouldn't the U.S. Government set an example for the rest of the world and put a stop to protectionist devices of this kind.
  - The Administration is doing what it can to encourage all nations to gradually eliminate export subsidies.
    - \* The success it has already achieved in this area has in part been based on our willingness to maintain an Eximbank program.
    - \* In other words, once we show foreign governments that we will maintain a vigorous export finance program, they may be more willing to cooperate with us in phasing these programs out.
  - Until we reach the point where all countries agree not to subsidize exports, we must be prepared to do the same to protect our world market share.
- o Welfare for the rich. Isn't the Eximbank program another case of "welfare for the rich," since half of Eximbank's direct loans have gone to seven giant corporations?
  - Many small companies benefit indirectly from Eximbank loans.
    - \* Boeing, for example, has 3,500 subcontractors in 44 states.
  - More than 800 small companies benefit directly from Eximbank programs.

Questions and Answers.

- o The capital crunch. If the federal government no longer provides direct loans, where will small businesses raise the capital they need to get started and to stay in operation?
  - 99.7% of small businesses do not get SBA direct loans. The overwhelming majority of small businesses in this country succeed or fail without so much as a dime's worth of federal assistance.
  - Some small business people arrange their own bank loans, but many rely on savings or on loans from friends and family to raise their working capital.
  - The SBA will continue to provide significant amounts of loan guarantees and other assistance, especially to disadvantaged firms.
- o Government isn't doing enough. Given the present state of the economy, shouldn't the federal government be doing more to help small business?
  - The economic policies pursued by the Reagan Administration are already doing more for small business than any direct aid program could do.
  - Tax reform.
    - \* The personal income tax rate cuts are enormously beneficial to small business.
      - The vast majority of small firms are sole proprietorships or partnerships.
      - That means that all the money the owners make through the business is taxed as personal income.
      - The 25% Reagan tax rate cut therefore allows small business people to keep significantly more of their earnings than they would otherwise have been able to do.
    - \* The provision to allow expensing of up to \$5,000 in investment each year will further help small business raise capital.
    - \* The reductions in estate taxes allows family businesses to be passed from one generation to the next, instead of having to be sold for taxes when the owner dies.
  - Regulatory reform.
    - \* Reducing red tape is especially helpful to small

## RESEARCH &amp; DEVELOPMENT

History.

The need to mobilize scientific and industrial resources for World War II, and the desire to avoid being outdone by Soviet advancements such as the launch of Sputnik in 1957, were prime catalysts in leading U. S. policymakers to devote greater attention and resources to scientific and technological research and development.

Today, some 23 federal departments and agencies are involved in various facets of research and development (R&D).

o Programs.

More than nine of ten R&D dollars is obligated by five key agencies:

-- Department of Defense (DOD).

\* Supports R&D efforts largely related to advanced strategic and tactical military systems, basic research on such areas as materials and microelectronics, and advanced technology development in such areas as high-speed integrated circuits.

\* Obligations for the conduct of R&D efforts at DOD are \$23.2 billion in FY 1983.

-- Department of Energy (DOE).

\* Supports the National Defense Program to develop and test nuclear weapons, the General Science Program of basic research in high energy physics and nuclear sciences, and an Energy Program focusing on long-term R&D.

\* Obligations for the conduct of R&D efforts at DOE total \$4.7 billion in FY 1983.

-- Department of Health and Human Services (HHS).

\* Primarily conducts basic research in the biomedical sciences through the National Institutes of Health (NIH). Other parts of HHS conducting research are the Alcohol, Drug Abuse and Mental Health Administration; the Food and Drug Administration; the Centers for Disease Control; and agencies dealing with human services such as child abuse and quality of life for the elderly.

\* HHS R&D obligations total \$4.3 billion in FY 1983, \$3.8 billion of which is devoted to NIH.

-- National Aeronautics and Space Administration (NASA).

\* Pursues a vigorous program of space and planetary science, applications, and advanced technology for space technology and future aircraft.

\* Obligations are \$2.5 billion in FY 1983.

-- National Science Foundation (NSF).

\* Supports basic research in engineering and the mathematical, physical and biological sciences to advance scientific knowledge.

\* R&D obligations at NSF are slightly more than \$1 billion in FY 1983.

-- Others.

\* Several other agencies conduct or support R&D in various areas. These agencies include -- in order of R&D budget obligations -- the Departments of Agriculture, Transportation, Interior, Commerce, the Environmental Protection Agency, Nuclear Regulatory Commission, Veterans Administration, Agency for International Development and others.

\* R&D obligations for these agencies total \$3.1 billion in FY 1983.

o Costs.

-- In FY 1970, federal obligations for the conduct of R&D totaled \$15.3 billion.

-- In FY 1980, federal obligations for the conduct of R&D totaled \$31.7 billion.

-- In FY 1983, the level is estimated at \$38.9 billion.

o Administration action to date.

-- Budgets for FY 1982 and 1983 shifted priorities for types of R&D supported by the federal government.

\* Federal support for basic research in areas with long-term potential for technological developments and industrial applications has been progressively increased.

\* Federal involvement in near-term development, demonstration and commercialization projects for civilian technologies was progressively reduced. The Administration considered this type of work -- particularly in the energy area -- to be more appropriately done by the private sector.

-- For FY 1982:

- \* President Carter requested \$38.6 billion for the conduct of R&D.
- \* President Reagan requested \$37.8 billion.
- \* Congress approved \$36.4 billion.

-- For FY 1983:

- \* President Reagan requested \$38.9 billion.
- \* Congress approved \$38.9 billion.

The President's Proposals for FY 1984.

o Total federal R&D funding.

- The President proposes to increase federal R&D funding by \$6.9 billion to \$47.8 billion, an 18% increase.
- This funding increase will enable the federal government to boost support for basic research by 10%, from \$6 billion in 1983 to \$6.6 billion in 1984.

o Specific funding levels.

-- Department of Defense (DOD).

- \* Increase obligations for the conduct of R&D to \$29.9 billion, an amount \$6.7 billion greater than in FY 1983.

-- Department of Energy (DOE).

- \* Hold obligations at \$4.7 billion, an amount about equal to the FY 1983 level.

-- Department of Health and Human Services (HHS).

- \* Increase obligations to \$4.4 billion, an amount \$100 million greater than in FY 1983.

-- National Aeronautics and Space Administration (NASA).

- \* Reduce obligations to \$2.5 billion, an amount \$33 million less than in FY 1983.

-- National Science Foundation (NSF).

- \* Increase obligations to \$1.2 billion, an amount \$180 million greater than FY 1983.

### Justification (General).

- o Provide adequate support for research and development activities, especially basic research efforts, which serve either of two critical needs:
  - Federal government needs, such as a strong national defense, where the principal user of the R&D is the federal government.
  - Broad national needs, such as agricultural and health research and the pursuit of long-term energy technologies, to help assure the strength of the economy and the quality of life for all people.
- o Focus federal resources on appropriate R&D activities and away from those that are better undertaken by the private sector.
  - DOE provides a clear example:
    - \* Obligations have been more sharply directed toward programs where there is clear need for federal involvement, including the pursuit of selected energy technologies such as magnetic fusion. These programs are long-term, high-risk efforts that are not economically feasible for industry to undertake.
    - \* At the same time, federal obligations for near term solar and other renewable energy technology programs are being eliminated because a solid technology base has been developed, making it possible for industry to offer these alternative energy sources in the marketplace.

### Justification (Specific).

- o DOD.
  - The Defense R&D program is oriented toward the development of strategic and tactical weapons.
    - \* The Technology Base and Advanced Technology Development programs will continue to investigate promising new technologies. Efforts with Very High Speed Integrated Circuits, for example, are necessary for the further miniaturization of microelectronic devices.
    - \* Strategic Programs will continue to emphasise advanced ballistic missiles, ballistic missile defense, an advanced bomber, and an anti-satellite system.

- \* Tactical Programs are necessary to improve the capability of general purpose and theatre nuclear forces and allow the rapid deployment of these forces.
  - The Army is working on upgrades to the M-1 tank and Bradley Fighting Vehicle System and is increasing its efforts on remotely piloted vehicles.
  - The Air Force is developing a deep strike interdiction version of an existing fighter aircraft, a more reliable fighter engine and an air-to-air missile.
  - The Navy is developing a lightweight anti-submarine torpedo, a new longer-range anti-submarine missile and a new destroyer. Upgrades of current systems to improve detection, tracking and targeting are necessary to increase the capability of major systems now in production.

o DOE.

- More than 50% of new obligations for basic research are earmarked to initiate a number of major new projects that are necessary to improve the nation's capacity for basic research. These new projects include:
  - \* Building a linear colliding beam accelerator to demonstrate the feasibility of new techniques for very high energy electron-positron collisions -- critical to developing such unlimited-potential energy technologies as nuclear fusion.
  - \* Initiation of a national advanced materials research center to improve the linkages among academic, national laboratory, and industry scientists for the future advancement of high-technology industries.

o NASA.

- The \$109 million reduction for space and terrestrial applications reflects decreasing obligations in two major projects that are nearing completion:
  - \* LANDSAT D, the fourth in the series of experimental Earth observation satellites, was launched successfully in July 1982.
  - \* The Earth Radiation Budget Experiment (ERBE) satellite will be launched by the Space Shuttle in 1984.



- Now that the Space Shuttle is operational, it is no longer appropriate to classify all NASA programs as R&D; therefore R&D obligations for NASA exclude Space Shuttle production and operations, tracking and data acquisition activities, and related institutional support.
- o HHS.
  - More than 87% of the Department's health-related R&D funds, and more than 93% of the Department's basic research funds, will be expended by the National Institutes of Health. These funds will allow for biomedical research necessary to improve the nation's capabilities for the prevention, diagnosis and treatment of disease.
  - Among the most significant activities to be undertaken by NIH are basic research on cancer chemoprevention, including studies of nutritional factors; diagnostic imaging; herpes simplex virus vaccine; the acquired immunodeficiency syndrome (AIDS); and the efficacy of interferon for controlling the frequency and severity of multiple sclerosis.
- o NSF.
  - The Foundation's support for basic research is particularly important because this research complements the basic research programs of other agencies and assists in balancing federal support for promising research across all fields of science and engineering.
  - The 17% increase in NSF obligations for the conduct of R&D will:
    - \* Provide emphasis on disciplines such as mathematics, materials science and electrical, chemical and computer engineering that can make important contributions to the long-term competitiveness of the U. S. economy, particularly in high technology dependent industries.
    - \* Enhance research productivity by providing for the upgrading of research instrumentation, primarily on university campuses. One of the major problems today is the growing obsolescence of research instrumentation at the universities.

Questions and Answers.

- o Reductions in near-term R&D. How does the Administration justify reducing obligations for near-term R&D and demonstration programs?
  - It is the private sector, not the federal government, that has the expertise and capability to identify, fund and oversee the advancement of new technologies and bring them into the marketplace.
  - The government's role is primarily to create an economic climate conducive to private investments. This can be accomplished through such measures as tax incentives, reductions in the regulatory burden, and clear delineation of federal government and private sector roles.
  
- o Encouragement for private efforts. What has the Administration done to encourage more private sector involvement?
  - Tax incentives.
    - \* The Economic Recovery Tax Act (ERTA) provides for a 25% tax credit for businesses that spend more on R&D than they did in each of three previous years on R&D.
  - Clarifying anti-trust policies.
    - \* The Administration is promoting private sector arrangements for cooperative R&D ventures, such as limited research partnerships (LRP), which allow companies to pool their funds and benefit jointly from the results of the research conducted by private, federal or university labs without risk of violating antitrust laws.
  
- o Result of Administration's efforts. What has been the outcome of the Administration's efforts to spur more private sector involvement in R&D?
  - An NSF survey of major companies, published in September 1982, indicated that total industry spending for R&D:
    - \* In 1982, would be 10% above the level of the previous year.
    - \* In 1983, would be 8% above the 1982 level.

-- These estimates are thought to be low for two reasons:

- \* At the time of the survey, companies were not sure of the impact of the Administration's tax incentives on their own R&D budgets; now they have a better idea of the favorable effect.
- \* The economy is recovering faster than expected, which should further increase the level of industry R&D efforts.

o Military vs. civilian. Why is R&D for defense increasing sharply without a corresponding increase for civilian R&D? With the intense high technology competition from other countries, shouldn't a stronger emphasis be provided on direct federal support for civilian R&D (e.g., in electronics and transportation)?

-- Defense R&D is increasing because the U.S. has underinvested in this area for more than 20 years.

- \* There is great strategic importance in maintaining technological advantage over potential adversaries.
- \* Defense is a federal government responsibility and DOD is the direct user of the results of R&D.

-- For civilian R&D to meet national needs, the federal government has two main responsibilities.

- \* It should provide a climate for technological innovation that encourages private sector R&D investment.

- The Administration is fulfilling this responsibility primarily by reducing government spending growth, regulation and tax rates.
- Thus, the Administration's R&D policy is part of its overall economic policy.
- The Administration is also encouraging greater cooperation among government, academia, and industry researchers.

- \* The government should focus support on areas where there is substantial prospect for significant economic gain to the nation, but where the private sector is unlikely to invest adequately because the benefits, in large measure, are not immediately "appropriable" by individual firms.
  - Thus, for example, the federal government supports basic research across all scientific disciplines but limits its spending on technology development to technologies requiring a long period of initial development, such as fusion power, where the risk is high but the payoff to the nation is potentially large.
  - This strategy is reflected in funding for R&D in the FY 1984 budget.
- o Health R&D. Why do the R&D programs of the National Institutes of Health receive only a modest 2% increase in 1984.
  - The programs of NIH have increased significantly in recent years.
    - \* Between 1970 and 1980, they almost doubled -- in constant dollars.
    - \* Total growth between 1982 and 1984 is estimated at 12% -- again, in constant dollars.
    - \* NIH now provides more than one-third of the total federal support for basic research.
  - A decision was made to emphasize the support of basic research in the physical sciences and engineering in 1984 because advances in these fields are key to long-term economic growth.
  - Still, health and biomedical research, chiefly in NIH programs, remain the largest category of non-defense R&D.

## SMALL BUSINESS

### History.

The federal government had no comprehensive small business program until 1953, when Congress created the Small Business Administration (SBA). The SBA was first established on a temporary basis, and was made permanent when Congress passed the Small Business Investment Act of 1958.

The agency performs a variety of advocacy functions on behalf of small business, including identifying and analyzing small business problems. In terms of budget considerations, it provides direct loans and loan guarantees to assist small firms. It also provides subsidized loans to individuals and small businesses that are the victims of physical disasters, and offers special assistance to firms headed by handicapped persons, members of minority groups, other disadvantaged individuals, and women. The agency also helps small business obtain a fair share of federal government contracts.

Another small business program, targetted specifically to members of minority groups, is the Minority Business Development Agency (MBDA), which is administered by the Departemnt of Commerce. The MBDA was created by President Nixon in 1969.

### o Programs.

-- The Small Business Investment Act defines a small business as one that is independently owned or controlled.

\* In determining how "small" a small business must be to qualify for assistance, the SBA relies on specific criteria for different industries and different programs.

- In the case of the retail industry, for example, a firm with less than \$7.5 million in sales is considered a "small" business.

- In the case of the wholesale industry, the cutoff point for SBA assistance is \$22 million in sales.

- In the case of a manufacturing concern, "small" is defined as having 250 or fewer employees, although in certain cases the figure is as large as 1500 employees.

-- The SBA offers loan assistance in the form of direct loans and loan guarantees.

\* In recent years, about 90% of SBA loan assistance has been in the form of loan guarantees.

- If a small business owner is without independent means, and cannot arrange a loan from a private bank, the SBA may assist him by, in effect, co-signing the loan.

\* If a small business owner is unable to arrange a guaranteed loan, the SBA may lend him the money directly, if the funds are available.

-- Other forms of SBA assistance include:

\* 100% guarantee of state pollution control bonds, the proceeds of which are used to enable small businesses to acquire pollution control equipment.

\* 90% guarantee of losses incurred by surety companies on bid, payment, or performance bonds that are issued to small contractors.

\* Physical disaster loans to rehabilitate or replace damaged homes and businesses.

-- SBICS and MESBICS:

\* The Small Business Investment Company program (SBIC), which operates under the SBA, is a venture capital program sponsored by the federal government.

- SBICs are private investment companies, licensed by the SBA, that help finance small companies.

- The SBA assists SBICs by guaranteeing the sale of their debentures, which are purchased by the Federal Financing Bank.

- These notes have terms of 3, 5, 7, or 10 years, must pay interest every six months, and must be repaid in full on maturity.

\* A specialized type of SBIC is the Section 301(d) SBIC (popularly called MESBIC), which provides assistance to small firms owned by socially or economically disadvantaged persons.

- Membership in a minority group is only one of a number of factors used in determining if an applicant is "disadvantaged."

-- The SBA's 8(a) Program.

\* This program is designed to channel non-competitive

federal contracts to small businesses owned by members of socially and economically disadvantaged groups.

\* Program participants receive management, technical marketing, and financial aid.

-- The Minority Business Development Agency contracts with public and private organizations to provide management and technical assistance to minority firms in 95 Standard Metropolitan Statistical Areas (SMSAs).

#### o Coverage.

-- In FY 1960, SBA made 3,325 direct loans and 382 guaranteed loans.

-- In FY 1970, SBA made 6,391 direct loans and 8,373 guaranteed loans.

-- In FY 1980, SBA made 6,586 direct loans and 24,933 guaranteed loans.

\* 6,033, or approximately one-fifth of the total 31,519 loans, were made to members of minority groups.

-- As of October 1, 1982, SBA had a total of 147,501 direct and guaranteed loans outstanding.

\* This means that the agency is providing financial assistance to less than 1% of this nation's 16.5 million small businesses.

\* SBA is also providing financial assistance to less than 2% of the nation's minority businesses.

#### o Costs.

-- When an SBA loan is repaid, the money can be lent to another borrower. The government loses money on SBA loans only when the borrower of a direct or guaranteed loan defaults on the payments.

\* These losses, combined with the annual operating expenses and interest payments of SBA, are the direct federal costs.

-- A more relevant measure of the growth of the SBA program is the increase in program level, or the annual ceiling that Congress puts on the dollar amount of direct loans and loan guarantees that the SBA is permitted to make.

\* In FY 1960, the ceiling for SBA direct business loans totaled \$138 million; for guaranteed loans it was \$11 million.

- \* In FY 1970, the ceiling for direct loans was \$179 million; for guaranteed loans it was \$378 million.
- \* In FY 1980, direct loans totaled \$392.9 million; guaranteed loans, \$3.2 billion -- a more than doubling in the first case, and a more than sevenfold increase in the second case, over the last decade.

-- The cost of the MBDA is reflected by its annual budget outlays; in FY 1980, these were nearly \$56 million.

o Administration Action to Date.

-- For FY 1981:

\* SBA.

- President Carter requested \$346 million for direct loans and \$4.2 billion in loan guarantees.
- President Reagan requested \$304 million for direct loans and \$3.4 billion in loan guarantees.
- Congress approved \$367 million for direct loans and \$4.5 billion in loan guarantees.

\* MBDA.

- President Carter proposed increasing the MBDA's budget to \$59 million.
- President Reagan proposed a 5% cut in MBDA's budget from its FY 1980 level.
- Congress authorized \$60 million in 1981.

-- For FY 1982:

\* SBA.

- President Carter requested \$346 million for direct loans and \$4.2 billion for loan guarantees.
- The Reagan Administration requested \$260 million in direct loans and \$3.2 billion in loan guarantees, about a 25% reduction from previous funding levels.
- Congress approved \$225 million in direct loans and \$3.0 billion in loan guarantees.
- In addition, the Reagan Administration secured the following reforms of the SBA program through the Omnibus Budget Reconciliation Act of 1981:



- a) Increased SBA average direct loan interest rates to the current rate charged the federal government when it borrows.
- b) Provided that the SBA must guarantee 90% of a loan of \$100,000 or less. (For larger amounts, SBA could guarantee 70% to 90%).

\* MBDA.

- President Carter proposed outlays of \$62 million.
- President Reagan requested outlays of \$57 million.
- Congress approved outlays of \$49 million.

\* Small business share of R&D.

- In July 1982, Congress passed the Small Business Innovation and Research Act, which sets aside a portion federal agencies' research and development budgets for contracts to be awarded to small firms.
- Small businesses will receive \$45 million in federal assistance as a result of this legislation in FY 1984, and up to \$500 million by 1989.

-- For FY 1983:

\* SBA.

- President Reagan proposed to eliminate direct loans, continue to provide loan guarantees at the level of \$2.7 billion, and continue the SBIC/MESBIC programs.
- Congress voted to continue direct loans at a lower level (\$260 million for new loans of which \$50 million was added in the recently enacted "Jobs Bill"), to provide loan guarantees at a level of \$3.3 billion, and to continue the SBIC/MESBIC program.

\* MBDA.

- President Reagan proposed total outlays of \$60 million.
- Congress approved this level.

The President's Proposals for FY 1984.

o SBA credit assistance.

-- The Administration proposes to continue its policy of phasing out subsidized direct loans, except for \$41 million to purchase the debentures of MESBICS.

-- In 1984, the President proposes that 98% of SBA's credit assistance will be in the form of loan guarantees.

\* The guaranteed business loan program will be maintained at FY 1983 proposed levels.

\* The proposed total guaranteed loan business assistance is \$2.8 billion (\$2.65 billion in guaranteed business loans, and \$150 million to guarantee pollution control bonds.)

\* SBA loan guarantees will be gradually reduced after 1984, to \$1.2 billion in 1987.

-- The President proposes that the private sector bear a greater portion of the risk for guaranteed loans.

\* Currently, the SBA guarantees up to 90% of private loans up to \$500,000.

\* The Administration is proposing to reduce that to 70% for loans to members of non-disadvantaged groups, so the private lender will bear 30% of the risk.

\* SBA has implemented a pilot program where SBA will guarantee 75% of loans that are processed solely by the banks.

o Minority business assistance.

-- Minority business assistance provided by the Department of Commerce and SBA is proposed to continue at the 1983 level of over \$100 million.

-- SBA's 8(a) Program.

\* The FY 1984 budget includes \$42 million in funding to assist small firms owned by members of disadvantaged groups.

\* This program will assist these firms in obtaining 4,600 contracts in FY 1984, and will provide management assistance to 10,300 firms.

- \* This is the same program level as last year, but with this difference: Beginning in FY 1984, 10% of MBDA's program level would be financed through private sector cost-sharing, gradually increasing to 25% by 1987.
  - Private sector cost-sharing means that the management and technical assistance that the federal government provides to minority-owned businesses through contracts with public and private organizations would no longer be provided at no charge.
  - In effect, a 10% "user fee" would be levied, and this would gradually be increased to 25%.
- In addition to credit and management assistance, the Administration has raised the target value of federal procurement contracts to be awarded to minority businesses from \$11 billion over 1980-82, to \$15 billion over 1983-85, a 37% increase.

### Justification.

#### o Credit assistance.

- Less than 2% of small businesses receive any type of federal assistance through SBA.
  - \* Subsidized direct loans create an unfair competitive advantage for a few firms over others that are equally deserving.
  - \* Elimination of direct loans will affect less than 0.3% of this country's small businesses.
- Reducing the extent of federal loan guarantees from 90% to 70% will encourage private lenders to improve the quality of their loans, and decrease the likelihood that the Federal Government will lose money through default.
  - \* Reducing Federal intervention in the credit market will actually increase the supply of credit available to private borrowers, especially to those who could succeed on their own, but have been unable to secure loans in the past because of extensive federal absorption of credit.
  - \* As interest rates continue to decline, small businesses will be able to obtain credit more easily.
  - \* The federal government will continue to provide credit assistance to disadvantaged individuals.

#### o Minority business assistance.

- The Administration remains committed to ensuring that minority-owned businesses have an equal opportunity for growth and development.
  
- The shift from direct assistance to indirect assistance will discourage a tendency on the part of some minority firms to depend on federal aid for survival, and will help eliminate the perception on the part of some financial institutions that minority enterprises are higher credit risks.

Questions and Answers.

- o The capital crunch. If the federal government no longer provides direct loans, where will small businesses raise the capital they need to get started and to stay in operation?
  - 99.7% of small businesses do not get SBA direct loans. The overwhelming majority of small businesses in this country succeed or fail without so much as a dime's worth of federal assistance.
  - Some small business people arrange their own bank loans, but many rely on savings or on loans from friends and family to raise their working capital.
  - The SBA will continue to provide significant amounts of loan guarantees and other assistance, especially to disadvantaged firms.
- o Government isn't doing enough. Given the present state of the economy, shouldn't the federal government be doing more to help small business?
  - The economic policies pursued by the Reagan Administration are already doing more for small business than any direct aid program could do.
  - Tax reform.
    - \* The personal income tax rate cuts are enormously beneficial to small business.
      - The vast majority of small firms are sole proprietorships or partnerships.
      - That means that all the money the owners make through the business is taxed as personal income.
      - The 25% Reagan tax rate cut therefore allows small business people to keep significantly more of their earnings than they would otherwise have been able to do.
    - \* The provision to allow expensing of up to \$5,000 in investment each year will further help small business raise capital.
    - \* The reductions in estate taxes allows family businesses to be passed from one generation to the next, instead of having to be sold for taxes when the owner dies.
  - Regulatory reform.
    - \* Reducing red tape is especially helpful to small

business owners who cannot afford the legal and clerical assistance they need to cope with federal paperwork.

-- Inflation.

\* The two-thirds drop in the rate of inflation that has occurred since President Reagan took office helps small businesses, which cannot offset increased operating costs by raising prices as easily as can large corporations.

-- Interest rates.

\* The prime rate is now less than half what it was in January 1981; this makes it much easier for small businesses to borrow.

o Disadvantaged minorities. But don't members of minority groups still need special assistance in starting their own businesses.

-- They often do. That is why the Administration is not reducing funding for business assistance programs that help the disadvantaged.

-- In the case of federal procurement, the Administration is actively working to ensure that minority-owned businesses get a greater amount of federal contracts.

o 8(a) graduation. Then why is SBA "graduating" so many minority businesses from its 8(a) program? Isn't that just a polite euphemism for cutting off their government contracts?

-- The law was amended during the last Congress to require time limits (which vary according to the type of business) on participation in the program.

-- This change was made in order to give more minority-owned businesses a chance to get government contracts, and to ensure that these firms not become totally dependent on the government for their incomes.

-- The SBA is making every effort to ease the transition for those firms whose time limits are now expiring.

-- MBDA is also implementing a transition program, and the Secretary of Commerce is encouraging major government contractors to subcontract with minority-owned firms.

## TRANSPORTATION

### History.

Significant federal involvement in transportation issues dates from the middle of the last century, when Congress subsidized the extension of railroad lines nationwide through land grants. This was followed by the creation of the first independent federal regulatory agency, the Interstate Commerce Commission, in 1887. The federal role further expanded as first motor and then air transportation revolutionized interstate commerce.

The present interstate highway system is the product of the Federal Highway Act of 1956. This act authorized the expenditure of \$32 billion over the ensuing 13 years for the construction of a 41,000 mile interstate highway system.

In 1966, Congress consolidated the bulk of federal transportation agencies -- including the Coast Guard, the Federal Aviation Administration, the Federal Highway Administration, the National Traffic Safety Agency (forerunner of the National Highway Traffic Safety Administration), and the Urban Mass Transportation Administration -- into a single, cabinet-level department: the Department of Transportation (DOT). The Maritime Administration was transferred from the Department of Commerce to DOT in August, 1981.

### o Programs.

#### -- Ground transportation.

##### \* Highway systems (Federal Highway Administration).

- The Federal Highway Act provided for gas taxes and other highway user items to be paid into a Highway Trust Fund to finance the system.
- This fund is administered by the Federal Highway Administration (FHWA).
- FHWA is in charge of providing grants to the states for federal highway planning, construction, maintenance, and improvement.

##### \* Highway safety (National Highway Traffic Safety Administration).

- The National Highway Traffic Safety Administration (NHTSA), was established by the Highway Safety Act of 1970.
- NHTSA is charged with promulgating and enforcing

federal safety and fuel economy standards, and supplementing state highway safety standards.

\* Mass transit (Urban Mass Transit Administration).

- The Urban Mass Transit Administration (UMTA) was established by the Urban Mass Transit Act of 1964
- UMTA administers federal aid for mass transit systems.
- This aid is dispensed through a variety of formulas (based on factors including population, bus and rail vehicle miles, and passenger miles) and through discretionary grant programs.
- The majority of funds are reserved for capital projects, such as construction and rehabilitation of bus and rail facilities.
- Grants are also provided for operating assistance, planning activities, demonstration projects, and research.

\* Railroads (Federal Railroad Administration).

- The Federal Railroad Administration (FRA) was created pursuant to the Department of Transportation Act of 1966.
- The FRA administers federal rail safety laws and issues regulations; it also administers grants, direct loans, and loan guarantees to certain railroads -- including the Consolidated Rail Corporation (Conrail) and the National Railroad Passenger Corporation (Amtrak) -- shipping groups and state and local governments; and owns and operates the Alaska Railroad.

\* Regulation (Interstate Commerce Commission).

- The Interstate Commerce Commission (ICC), regulates interstate surface transportation, including trains, trucks, buses, inland waterway and coastal shipping, and freight forwarders.
- The ICC is authorized to ensure that the carriers it regulates will provide the public with rates and services that are "fair and reasonable."

-- Air transportation.

\* Airways and airports (Federal Aviation Administration).

- The Federal Aviation Administration (FAA),



created in 1958 as the Federal Aviation Agency, is charged with protecting air safety.

- It promulgates and enforces rules and regulations relating to the manufacture, operation, and maintenance of aircraft, and to the training and certification of pilots.
- It manages the nation's air traffic control system, and also the Airport and Airway Trust Fund, which finances airport development, modernization of the FAA capital plant, and a portion of FAA operating costs. Federal revenues received from airline tickets and airport user fees are statutorily earmarked for deposit into Airport and Airway Trust Fund.

\* Aeronautical research and technology (NASA).

- The National Aeronautics and Space Administration (NASA) is an independent federal agency established by Congress in 1958.
- NASA's aeronautical research and technology programs are designed to increase the safety, efficiency, and performance of civilian and military air transportation, and to maintain U.S. leadership in aeronautical technology.

\* Air carrier subsidies.

- This program was instituted to ensure that smaller communities would not abruptly be denied air carrier service in the wake of airline deregulation.

\* The Civil Aeronautics Board (CAB) is an independent government agency created by Congress in 1938 to regulate the civil air transport industry.

- Deregulation of the airline industry has been in progress since 1978. The Board's major remaining responsibilities are to regulate international aviation and to administer an airline subsidy program.

-- Water Transportation.

\* Marine safety and transportation (Coast Guard).

- The Coast Guard was established by Congress in 1915.
- Coast Guard services include search and rescue, maintenance of navigation aids, enforcement of maritime laws, and other activities.

\* Ocean shipping (Maritime Administration).

- The DOT's Maritime Administration has traditionally provided two types of subsidies to assist the U.S. merchant marine and shipbuilding industry.
- Operating subsidies offset the higher costs of operating U.S. flag vessels.
- Construction subsidies offset the higher costs of building vessels in U.S. shipyards.

\* Regulation (Federal Maritime Commission).

- The Federal Maritime Commission was established in 1961.
- The commission grants antitrust immunity to ocean common carriers in the waterborne U.S. foreign trades and regulates rates in the domestic offshore commerce of the United States.

o Program Changes.

- In recent years there has been a pronounced trend toward deregulation of transportation services.
- \* In 1978, Congress enacted legislation to deregulate the airline industry, and abolish the Civil Aeronautics Board in 1985.
- \* In 1980, Congress enacted two bills to reduce regulation of the trucking, household mover, and railroad industries.
- \* In 1982, Congress enacted a bill to reduce regulation of the bus industry.

o Costs.

-- Total outlays.

- \* The government spent \$6.9 billion on transportation in FY 1970.
- \* The government spent \$23.4 billion on transportation in FY 1981.

-- Highways and Highway Safety.

- \* The government spent \$4.5 billion in FY 1970.
- \* The government spent \$9.4 billion in FY 1981.

-- Mass transit.

\* The government spent \$106 million in FY 1970.

\* The government spent \$3.9 billion in FY 1981.

-- Railroads.

\* The government spent \$17 million in FY 1970

\* The government spent \$3.7 billion in FY 1981.

-- Air transportation.

\* The government spent \$1.3 billion in FY 1970.

\* The government spent \$3.9 billion in FY 1981.

-- Water transportation.

\* The government spent \$910 million in FY 1970.

\* The government spent \$2.42 billion in FY 1980.

o Administration Action to Date.

-- For FY 1982:

\* President Carter proposed total outlays of \$21.5 billion for transportation programs, including:

- Highways and highway safety, \$8.9 billion.

- Mass transit, \$3.8 billion.

- Railroads, \$1.8 billion.

- Air transportation, \$4.2 billion.

- Water transportation, \$2.8 billion.

\* President Reagan proposed spending a total of \$20.0 billion, including:

- Highways and highway safety, \$8.5 billion.

- Mass transit, \$3.8 billion.

- Railroads, \$1.7 billion.

a) The Administration further proposed that Conrail be sold immediately, and that the subsidy to Amtrak be reduced by half a billion dollars from the level proposed by the Carter Administration.

- Air transportation, \$3.5 billion.
- Water transportation, \$2.5 billion.

\* Congress approved a total of \$21.2 billion, including:

- Highways and highway safety, \$8.9 billion.
- Mass transit, \$3.6 billion.
- Railroads, \$2.0 billion.
- a) Congress postponed the sale of Conrail until after June of 1983, and reduced the subsidy to Amtrak to \$400 million less than the Carter proposal.
- b) Congress accepted administration proposals that Amtrak be required to cover 50% of its costs with revenues, and that it be allowed to terminate service without congressional approval in certain circumstances.

- Air transportation, \$3.8 billion.
- Water transportation, \$2.9 billion.

-- For FY 1983:

\* President Reagan proposed total outlays of \$19.6 billion for transportation, including:

- Highways and highway safety, \$8.6 billion.
- Mass transit, \$3.2 billion.
- Railroads, \$1.2 billion.
- Air transportation, \$4.0 billion.
- Water transportation, \$2.6 billion.

\* Congress approved \$21.8 billion, including:

- Highways and highway safety, \$9.0 billion.
- Mass transit, \$3.9 billion.
- Railroads, \$1.6 billion.
- Air transportation, \$4.2 billion.
- a) Increased funding for air transportation programs derived from the Airport and Airway Improvement Act, which Congress passed in 1982.

- b) Essentially, this act provided for modernization of the FAA capital plant and airport improvements by increasing airport user fees.
- c) Specific provisions included increases in airline ticket taxes and taxes on aviation fuels.

- Water transportation, \$3.1 billion.

#### The President's Proposals for FY 1984.

- o The Reagan Administration proposes total outlays of \$25.1 billion for transportation, an increase of 15% over 1983 levels, including:
  - Highways and highway safety, \$12.5 billion.
  - Mass transit, \$3.8 billion.
  - Railroads, \$1.2 billion.
  - Air transportation, \$4.8 billion.
  - Water transportation, \$3.0 billion.
- o Highways and mass transit.
  - In December, 1982, Congress passed the Surface Transportation Assistance Act.
  - Highways.
    - \* This legislation provides for increased expenditures for completing and preserving the interstate highway system and for repairing highways and bridges.
      - Funding for interstate completion and rehabilitation will increase 64% over FY 1982 and 8% over FY 1983 levels.
      - Interstate rehabilitation will show the greatest percentage increase: 200% over FY 1982 and 25% over FY 1983.
    - \* To finance these improvements, the legislation increased the highway motor fuels tax from 4 to 9 cents per gallon -- the first such increase since 1959.
    - \* It also restructured other highway user taxes to make them more equitable.
      - Users who cause the heaviest damages to highways must now pay a greater share of the taxes required to maintain them.

\* The restructuring of these taxes made possible the elimination of a number of smaller taxes, such as tire and tube taxes.

-- Mass transit.

\* The Surface Transportation Assistance Act also sets aside 1 cent of the 5-cent per gallon motor fuel tax increase for urban mass transit.

o Railroads.

-- In keeping with the Administration's policy of reducing federal responsibility for rail activities unrelated to safety, federal aid is being reduced or eliminated in conjunction with continued efforts to deregulate the railroads so that they may be self-supporting.

-- In December 1982, Congress passed Administration-backed legislation authorizing transfer of the Alaska Railroad to the State of Alaska. Federal outlays for the railroad are being eliminated in keeping with efforts to complete the transfer in FY 1983.

o Air transportation.

-- The 1982 increase in airport user fees will continue to finance the multi-year FAA capital modernization program, airport improvement grants and an increased share of FAA operations and maintenance costs.

o Water transportation.

-- The Administration requests approximately the same amount for this item in FY 1984 as in FY 1983.

-- The Administration proposes again that user fees be charged to cover some services presently provided by the Coast Guard at no cost to the beneficiaries.

Justification.

o Highways.

-- The interstate highway system will be funded at a level that will lead to completion of the system by the early 1990s.

-- Rehabilitation of the aging highway system, which carries half of all interstate traffic, will receive high priority, as will the repair or replacement of unsafe highway bridges, so that further deterioration of the system will be halted, and existing decay will be repaired.

\* It is much less expensive to repair than to replace a highway.

o Mass transit.

-- Directing federal aid toward capital funding of urban mass transit systems will help preserve the aging fixed-rail systems that are beginning to fall into disrepair in many cities.

-- Federal operating assistance will be reduced.

\* These funds have previously supported marginally-effective transit services that would not have been undertaken if federal aid had not been available.

\* Operating subsidies have enabled fares to remain artificially low; those who use these transit systems, not the nation's taxpayers, should pay for this privilege.

\* Federal regulations attached to this assistance have increased operating costs.

o Railroads.

-- Passenger railroads, operating with federal subsidies, have become extremely inefficient, forcing federal subsidies even higher.

-- Reducing both federal subsidies and regulation further will continue the on-going process of successfully putting the railroads back on a sound financial footing.

o Air transportation.

-- The FAA workload is projected to increase by 60% to 80% between 1981-2000.

-- Upgrading and expanding the aviation infrastructure is essential to meet anticipated demand through the year 2000.

o Water transportation.

-- Certain Coast Guard functions, such as rescue operations and navigation aids, principally benefit certain distinct groups, such as pleasure-boat owners.

-- It is only fair that these special beneficiaries pay for the cost of these services through user fees.

Questions and Answers.

o Road building. How can you guarantee that the funds provided for road repair are sufficient? Are't road conditions much worse than we are led to believe?

-- Based on analysis of a Department of Transportation study, the new 5 cents per gallon motor fuels tax is more than sufficient to meet highway needs at the historic level of Federal support.

\* The DOT analysis concluded that a 3.7 cent increase was sufficient, 0.3 cents less than was approved (subtracting one cent for mass transit.)

\* The analysis assumed maximum need; there was no wishful thinking involved.

-- States will still be called upon to contribute a substantial share of the costs of repairing state highways and bridges, where the majority of road disrepair problem exists.

o Trucks and Taxes. Are higher truck taxes unfair to heavy trucks?

-- No. In the past, heavy trucks have been paying only about 60% of the costs they impose on the system.

-- Even when the new taxes are fully implemented, the heaviest trucks will still pay only about 73% of the costs they impose. Trucks will still be subsidized by other highway users.

o Mass transit responsibility. Doesn't the federal government have an obligation to fully fund mass transit systems?

-- The Administration has consistently maintained that federal aid to mass transit should be for capital assistance, rather than operating assistance.

\* Operating costs should be borne by those who actually use the mass transit systems.

\* They are also more properly a matter for state and local concern.

-- Federal operating subsidies are wasteful and counter-productive.

\* These funds have supported marginally-effective



transit services that would not have been provided at all if federal assistance were not available.

- \* Operating subsidies have also kept fares at artificially low levels.
- o Mass transit funding. Isn't the President's mass transit budget just a shell game? Hasn't he backtracked on promises made during the gas tax debate to increase mass transit funding?
  - The President has never altered his view that federal aid in this area should be directed toward capital assistance rather than operating assistance.
    - \* Operating subsidies will be gradually reduced, but capital assistance will increase 44% in 1984 over 1982 levels.
    - \* In 1983 and 1984, \$1.8 billion dollars in federal aid will be made available for capital projects. (This will especially benefit cities with aging fixed-rail systems, as funds are directed toward their long-deferred capital needs.)
  - Most important of all: Thanks to the Administration's motor fuels tax, transit systems will have for the first time a dedicated source of revenue.
    - \* One cent out of every nickel raised under this tax is earmarked for mass transit; systems no longer must be dependent on whatever amount happens to be appropriated in a given year.
    - \* The Administration's budget request for mass transit is based on Treasury Department estimates of the amount of revenue that will be generated under the new tax.

## URBAN DEVELOPMENT

### History.

The Urban Renewal Program was established in 1949 as the first major federal program intended to arrest urban decay. In the 1960s, the Model Cities, Neighborhood Facilities, Water and Sewer and Open Space Land programs were established. Then, in 1974, these programs were combined into the Community Development Block Grant.

In 1978, the Urban Development Action Grant Program was established as a program for leveraging private investments for urban development projects.

Today, CDBG and UDAG are the two major federal urban development programs. They are administered by the Department of Housing and Urban Development.

### o Programs.

#### -- Community Development Block Grants (CDBG).

- \* Awards annual grants to "entitlement" communities -- generally cities with more than 50,000 population, central cities, and urban counties with population exceeding 200,000 -- to carry out a wide range of activities, including:
  - The acquisition of real property for commercial, industrial or residential development, for public facilities such as day care centers or senior citizens homes, or for streets or water and sewer projects.
  - Rehabilitation of residential and nonresidential structures.
  - Provisions of or improvements in public facilities, such as water and sewer facilities, streets and neighborhood centers.
- \* Entitlement communities develop their own programs and funding priorities. However, they are obligated to give maximum feasible priority to activities that do at least one of the following:
  - Benefit low- and moderate-income persons.
  - Aid in the prevention or elimination of slums.
  - Correct urgent problems that pose health or safety threats to the community.

\* Nonentitlement communities can receive awards in either of two ways:

- In states that administer nonentitlement funds from HUD, these cities and counties can receive grants from their state governments.
- In other states, nonentitlement communities compete for awards under HUD's Small Cities Program. The cities and counties with the greatest likelihood of receiving awards in the grant competition are those with the highest percentage of absolute poverty, those whose programs would have the greatest positive impact on distressed communities, those with the greatest community development needs, and those that have demonstrated commitment to fair housing and equal opportunity.

-- Urban Development Action Grants (UDAG).

- \* Makes grants available to distressed cities and urban counties to help them stimulate private sector economic development activities.
- \* Cities typically loan grant money to developers for the construction of public or private buildings, infrastructure improvements, or other economic development activities.
- \* Awards are given only when private sector commitments are firmly in place.
  - The minimum private sector contribution to a project is \$2.50 for each UDAG dollar.
  - The average private sector contribution is \$6.00 for each UDAG dollar.

o Coverage.

-- CDBG.

- \* Entitlement awards.
  - In FY 1975, the first full year of the CDBG program, 583 cities and urban counties received funds.
  - By FY 1981, this number had increased to 643.
- \* Nonentitlement awards (Small Cities Program).
  - In FY 1975, 1,825 awards were made.
  - In FY 1981, the number was 1,822.

-- UDAG.

- \* In FY 1978, the first year of the program, UDAG supported 124 projects in 111 cities.
- \* Since 1978, the program has supported 1,550 projects in 750 cities.

o Costs.

-- CDBG.

- \* In FY 1975, the first full year of funding for the CDBG program, the budget was \$2.6 million.
- \* In FY 1981, the CDBG budget was \$3.7 billion, a more than 1,300-fold increase.

-- UDAG

- \* In FY 1979, the UDAG budget was \$400 million.
- \* In FY 1981, the UDAG budget was \$675 million.

o Administration action to date.

-- CDBG.

\* For FY 1982:

- President Carter requested \$4.0 billion.
- President Reagan requested \$3.2 billion.
- Congress approved \$3.5 billion.

\* For FY 1983:

- President Reagan requested \$3.5 billion.
- Congress approved \$3.5 billion.

-- UDAG.

\* For FY 1982:

- President Carter requested \$675 million.
- President Reagan requested \$439 million.
- Congress approved \$458 million, with a provision that as much as 5% of that amount could be cut by the Administration. With the Administration's cut of that amount, the budget was \$435 million.

\* For FY 1983:

- President Reagan requested \$440 million.
- Congress approved \$440 million.

The President's Proposals for FY 1984.o CDBG.

- Maintain budget in FY 1984 at the FY 1983 level.
- Include new housing construction as an activity eligible for financing under the grant program.
- Mandate that all states administer the non-entitlement portion of the CDBG program. Presently, states can opt to administer the program themselves or can leave administration activities with the federal government.

o UDAG

- Requested \$196 million for the program in 1984; when combined with proposed deferral of \$244 million of excess 1983 funds, this would maintain \$440 million program level.

Justification.o CDBG.

- Since the budget for this program is sufficient at the 1983 level, the Administration is requesting the same amount for 1984.
- \* The dramatic slowing of inflation, plus expected program efficiencies, means that approximately the same amount of real dollars will be available this year as last.
- By allowing CDBG funds to be used for the construction of new housing units, the Administration's proposal gives recipient cities and counties more flexibility in meeting their communities' individual needs.
- By requiring states to administer the program, money for staffing and administrative activities would be saved.

o UDAG.

- The Administration's request anticipated a deferral of \$244 million from 1983 to 1984 to maintain UDAG program levels at \$440 million.
- The recent "jobs" bill disapproved the deferral to provide money for jobs creation as soon as possible.
- The funding made available for 1983 and 1984 will still average \$440 million per year, and is sufficient at this level.

Questions and Answers.

- o UDAG budget request. Isn't the President's actual budget request for UDAG really a lot less for 1984 than the level for 1983?
  - The President's request for new budget authority is for \$196 million.
  - Under the President's proposed 1984 budget, the requested \$196 million in new budget authority for 1984, combined with the proposed deferral of \$244 million, would have maintained the \$440 million program level in 1984.
  - Although the Congress directed tht the \$244 million be used in 1983 in the recently enacted "Jobs" Bill, the total UDAG resources available in 1983 and 1984 will be nearly \$1 billion.
- o Number of projects. How will the President's request affect the number of projects which can be supported?
  - The CDBG request, which is for the same level of funding in 1984 as in 1983, will be sufficient to maintain the same level of activity.

## AID TO THE ARTS

History.

Since 1913, the federal government has encouraged private support for the arts by offering tax incentives for individual and corporate taxpayers to contribute to arts endeavors. But the establishment of the National Foundation for the Arts and Humanities in 1965 marked the first time the federal government committed direct public support.

The Foundation is not an administrative body, but a statutory umbrella designation for three independent agencies.

o Programs.

- The National Endowment for the Arts, charged to assist projects that enhance artistic excellence and to increase access to that excellence, provides financial support in three key areas:
  - \* Grants to educational institutions, performing companies and other entities for the presentation of dance recitals, musical concerts, theatrical performances, art exhibits and other arts projects.
  - \* Challenge grants -- most of which are matched by \$3 in private contributions for each \$1 provided by the Endowment -- for the support and stability of concert halls, museums, performing companies and other arts institutions.
  - \* Financial support for state arts agencies.
- The National Endowment for the Humanities supports the dissemination of knowledge regarding the arts in two key ways:
  - \* Award of grants and contracts to humanities scholars, arts historians, and various humanities institutions for work to enhance appreciation of the arts and to improve the teaching of the arts.
  - \* Collection of information regarding humanities resources and institutions, and dissemination of this information to interested parties upon request.
- The Institute for Museum Services, charged to assist museums of all kinds in increasing and improving their services to the public, awards grants to museums for general operating support and some special projects.



o Coverage.

- In FY 1982, NEA funds supported approximately 5,000 projects.
- In FY 1982, NEH funds supported 2,143 projects.
- In FY 1982, IMS funds awarded some 440 grants to museums.

o Costs.

- In FY 1966, NEA and NEH each had budgets of \$2.4 million.
- In FY 1970, each had budgets of \$8 million, more than three times the initial appropriation level.
- In FY 1978, IMS' first full year of operation, the Institute received an appropriation of \$4 million.
- In FY 1981, appropriations for each of the three agencies peaked, with NEA receiving \$158.8 million, NEH receiving \$151.3 million, and IMS receiving \$12.9 million -- for the former two, an increase of nearly 200 times in a decade; and for the latter, a more than tripling in just three years.

o Administration Action to Date:

-- For FY 1982:

- \* President Carter proposed a total of \$361 million for the three agencies:
  - \$175 million for NEA.
  - \$169.5 million for NEH.
  - \$17 million for IMS.
- \* President Reagan proposed a total of \$173 million for the three agencies:
  - \$88 million for NEA.
  - \$85 million for NEH.
  - No funding for IMS.

\* Congress approved a total of \$286 million for the three agencies:

- \$143 million for NEA.
- \$130.6 million for NEH.
- \$11.5 million for IMS.

-- For FY 1983:

\* President Reagan requested a total of \$197 million, including:

- \$101 million for NEA.
- \$96 million for NEH.
- No funding for IMS.

\* Congress approved a total of \$285 million, including:

- \$144 million for NEA.
- \$130 million for NEH.
- \$10.8 million for IMS.

#### The President's Proposals for FY 1984.

o Continue support for arts activities at slightly reduced levels.

-- For NEA, the President is requesting \$125 million, about \$19 million less than the 1983 level.

-- For NEH, the President is requesting \$112.2 million, \$18 million less than for 1983.

-- For IMS, the President is requesting \$11.5 million, \$700,000 more than for 1983.

o Focus funding strategies to further increase private sector support.

-- NEA initiatives.

\* Through the Challenge and Advancement programs, emphasize longer-term institutional support to strengthen the financial base of arts organizations.

- Funding for the Advancement program will increase from \$1.5 million in 1983 to \$1.9 million in 1984.
- Challenge grants will account for almost 14% of NEA's total budget in 1984.

- \* Begin development of an arts information system, accessible to anyone concerned with the arts, including information about activities supported by NEA, state arts organizations, and arts service organizations.
- \* Institute the Locals Test program to determine how best to increase arts support at the local level.

-- NEH Initiatives.

- \* Initiate a new round of Challenge grants, making about 85 new awards in 1983 and 65 new awards in 1984.
- \* Continue sufficient level of funding for the Treasury Fund program, which provides funds for specific arts and humanities programs recommended by the National Council for the Humanities.

Justification (General).

- o Enhancement of the arts and humanities is not a critical national need.
- o Their funding should be reduced in any case, and especially so when the need to reduce federal spending growth is so great.
- o Steps should be taken to encourage greater private support of the arts and humanities.

-- The vitality of the nation's arts depends on a substantial level of private sector support.

-- The President's Committee on the Arts and Humanities will continue to seek ways of increasing private support.

-- Also, NEA will use its grants to leverage increased private contributions.

Justification (Specific).

o NEA:

-- Challenge and Advancement Program.

- \* By strengthening the financial base of arts institutions that participate in these programs, the Administration will encourage them to maintain diversity in their repertoires and enable better planning.

-- Arts Information System.

- \* Telecommunications will link state and other arts organizations to the central NEA data base, increasing access to information about the arts and improving the efficiency of arts program development.

-- Locals Test.

- \* For arts agencies and programs to flourish, it is necessary for those who enjoy the presentations and performances to participate more actively in their support. This test program provides \$2 million in seed money to determine how best to increase local backing.

o NEH.

-- Challenge Grants

- \* Expanding participation in this program by making new awards will encourage long-term financial planning and fundraising.
- \* This program will encourage private sector participation because it requires a \$3-to-\$1 match, with the private sector contributions coming from new donors or increased contributions from previous donors.

-- Treasury Fund.

- \* This program will stimulate private sector support on behalf of specific humanities projects because it requires a \$1-to-\$1 private sector match of federal contributions.

o IMS.

-- The President's proposal for a \$700,000 increase in budget authority in 1984 is necessary to keep the operating budget even with the 1983 level of \$11.5 million.

- \* The 1983 level of \$11.5 million consisted of an appropriation of \$10.8 million supplemented by \$700,000 in unused grant funds that were carried over from 1982.
- \* All appropriated funds are expected to be used in FY 1983.

-- This level of funding will permit IMS to continue providing the same level of services to museums throughout the country.

### Questions and Answers.

- o Total cuts. How much less will the 1984 federal commitment to the arts and humanities be than in the previous year?
  - Overall federal funding for the arts and humanities will be reduced by about \$36 million in 1984.
  - This level represents a 13% decrease from the 1983 appropriation.
- o Effects of the proposed changes. Won't the President's proposals adversely affect the level of arts activity across the country?
  - Because of increased efforts by arts agencies to guarantee more private sector support, the modest reductions proposed by the President should be offset substantially by private sector giving.
- o Level of non-federal support. How can the Administration expect the private sector and state and local governments to help out in these difficult times?
  - Studies show that private giving and non-federal public support are increasing.
    - \* In 1981, total corporate giving was up 11.1%, and private support was up nearly \$400 million over the previous year.
    - \* In 1982, 9 of 10 corporations surveyed for the National Council on Foundations said they would increase giving generally or hold the level equal.
    - \* In 1983, state appropriations for state arts agencies is up by 4.8%. Local government contributions are also up.

## ADMINISTRATION OF JUSTICE

### History.

The equitable administration of justice is one of the most basic functions of any legitimate government. The steadily increasing role of the federal government in our national life during this century has brought a corresponding increase in the federal government's responsibility for the administration of justice.

The government's chief law enforcement arm, the FBI, was enlarged over the years to cope with a succession of new threats: the emergence of organized crime syndicates during the 1920s, espionage in two world wars and thereafter, a resurgent Ku Klux Klan, the rise of new terrorist groups, and other criminal activity. The passage of the Clayton Antitrust Act in 1914 brought the government into the area of investigating and prosecuting "white-collar crime." Enforcement of civil rights laws has placed new demands on the federal machinery of justice. More recently, illegal immigration has emerged as a major problem.

### o Programs.

#### -- Federal law enforcement activities.

- \* More than half the federal resources for the administration of justice are devoted to law enforcement activities.
- \* General investigation (FBI).
  - The Federal Bureau of Investigation (FBI) was established as part of the Department of Justice in 1908 by order of the Attorney General.
  - The FBI enforces a broad range of federal criminal statutes, and works with state and local authorities both to support FBI missions and to assist them in performing their activities through training, dissemination of information, and other assistance.
  - Federal law enforcement funds are used primarily for investigating those cases that are purely federal, multi-jurisdictional, or too complex for state and local authorities to handle.
- \* Narcotics violation investigation (DEA).
  - The Drug Enforcement Administration (DEA) was created as part of a reorganization of the Department of Justice in 1973.

- DEA consolidated four previously separate drug enforcement agencies, and was designed to provide leadership in the national and international suppression of dangerous drugs.
- \* Alcohol, tobacco, and firearms investigation (ATF).
  - The Bureau of Alcohol, Tobacco, and Firearms (ATF) was established by Treasury Department order in 1972.
  - The order transferred the functions, powers, and duties arising under laws relating to alcohol, tobacco, firearms, and explosives from the Internal Revenue Service to the new bureau.
- \* Border enforcement activities (Customs and INS).
  - The United States Customs Service (originally the Bureau of Customs) was established as a separate agency in the Treasury Department by act of Congress in 1927 to collect revenue from imports and enforce customs and related laws.
  - The Immigration and Naturalization Service (INS) was created within the Department of Justice by act of Congress in 1891. It is responsible for administering the immigration and naturalization laws relating to the admission, exclusion, deportation, and naturalization of aliens.
- \* Protection and other activities (Secret Service).
  - The Secret Service was established by Congress in 1865 as an arm of the Treasury.
  - Originally charged with the detection and arrest of counterfeiters, the service was made responsible for the safety of U.S. presidents in 1901.
- Federal litigative and judicial activities.
  - \* Approximately one-third of all resources for the administration of justice are for federal civil and criminal prosecutions and for maintaining our federal court system.
  - \* The Department of Justice litigates all of the federal government's criminal cases and most of its civil cases.

-- Federal correctional activities.

- \* The federal government is responsible for the care and custody of prisoners charged with or convicted of violating federal laws.
- \* This responsibility is discharged by the Bureau of Prisons, which is a branch of the Department of Justice.

-- Criminal justice assistance.

- \* The National Institute of Justice and the Bureau of Justice Statistics are independent bureaus within the Department of Justice that conduct research and gather and disseminate statistics on criminal and civil matters.
- \* The National Institute of Corrections (also within the DOJ), provides technical assistance and small grants to states, localities, and non-profit organizations for applied research and development related to criminal justice.

o Costs.

-- Total costs (outlays).

- \* In FY 1970, the government spent \$972 million on the administration of justice.
- \* In FY 1981, the government spent \$4.4 billion on the administration of justice.

-- Law enforcement activities.

- \* In FY 1970, the government spent \$587 million.
- \* In FY 1981, the government spent \$2.0 billion.

-- Federal litigative and judicial activities.

- \* In FY 1970, the government spent \$232 million.
- \* In FY 1981, the government spent \$1.2 billion.

-- Federal correctional activities.

- \* In FY 1970, the government spent \$88 million.
- \* In FY 1981, the government spent \$342 million.



-- Criminal justice assistance.

\* In FY 1970, the government spent \$65 million.

\* In FY 1981, the government spent \$656 million.

o Administration Action to Date.

-- For FY 1982:

\* President Carter proposed total outlays of \$4.5 billion, including:

- Law enforcement activities, \$2.5 billion.

- Litigative and judicial activities, \$1.3 billion.

- Correctional activities, \$380 million.

- Criminal justice assistance, \$360 million.

\* President Reagan proposed total outlays of \$4.2 billion, including:

- Law enforcement activities, \$2.4 billion.

- Litigative and judicial activities, \$1.2 billion.

- Correctional activities, \$350 million.

- Criminal justice assistance, \$290 million.

\* Congress approved total outlays of \$4.4 billion, including:

- Law enforcement activities, \$2.5 billion.

- Litigative and judicial activities, \$1.3 billion.

- Correctional activities, \$360 million.

- Criminal justice assistance, \$290 million.

-- For FY 1983:

\* The Reagan Administration proposed total outlays of \$4.8 billion, including:

- Law enforcement activities, \$2.8 billion.

- Litigative and judicial activities, \$1.4

billion.

- Correctional activities, \$400 million.
- Criminal justice and assistance, \$160 million.
- The Administration also proposed, as part of its request for law enforcement funds, \$107 million for a network of 12 regional task forces to focus on organized crime drug enforcement.
- \* Congress approved \$5.0 billion, including:
  - Law enforcement activities, \$3.0 billion.
  - Litigative and judicial activities, \$1.4 billion.
  - Correctional activities, \$420 million.
  - Criminal justice and assistance, \$190 million.
  - Congress approved \$104 million for the task forces.

#### The President's Proposals for FY 1984.

- o Raise total spending for administration of justice to \$5.5 billion, an increase of nearly 10%.
- o Increase funding for federal law enforcement activities by 11% to \$3.3 billion.
  - The FBI's budget would be increased by 24% to pay for major capital equipment acquisition and additional manpower.
- o Increase funding for federal litigative and judicial activities by 14% to \$1.6 billion.
- o Provide \$520 million -- an increase of \$100 million -- for prisons and other federal correctional activities.
  - These funds would be used for the construction of one new federal prison, planning and site acquisition for a second, construction of a new jail for pre-trial detainees, and other modernization and rehabilitation projects.
- o Provide \$170 million for criminal justice assistance to the states and localities.
  - This includes a new \$92 billion criminal justice assistance program.

- Of this amount, \$72 million will be in the form of grants to the states to support programs that have proved effective in reducing crime.

Justification.

- o Crime is a serious national problem.
  - Violent crime in 1980 was 60% greater than in 1971, and 33% greater than in 1976.
  - Crimes against property in 1980 were 54% greater than in 1971, and 16% greater than in 1976.
  - The most frequent victims of crime are the elderly, the poor, and minority group members.
  - Recent declines in crime are encouraging, but we cannot let up on our efforts until crime rates are permanently reduced.
- o While recognizing that crime control is primarily a state responsibility (the states handle 97% of all criminal cases), the Administration also recognizes that the federal government must play a leadership role, not only in terms of federal investigations and prosecutions, but also in terms of direct assistance to state and local governments.
  - Federal law enforcement efforts must be equal to the demands placed on the federal government in this area.
  - Federal assistance to anti-crime efforts at other levels helps increase the effectiveness of these efforts, yet leaves the implementation and ultimate success of these programs where they belong -- at the state and local level.

Questions and Answers.

- o Jails or Jobs? Why is the federal government spending more money on law enforcement and correctional institutions instead of addressing joblessness, poverty, ignorance, hunger, and other causes of crime?
  - The federal government is spending more than 350 times on these particular problems than it is on law enforcement.
  - Federal spending on these problems has increased 11% since 1980 -- after adjusting for inflation.
  - But crime rates cannot be ascribed simply to economic deprivation, discrimination, and related causes.
    - \* The causes of crime are complex, but result in large part because of the slim chance of punishment.
    - \* The crime problem in this country has worsened despite the great efforts being made to eliminate poverty and promote racial justice.
  - Therefore, the key to reducing crime lies in improving law enforcement, which the President's program does.
- o Civil rights. Why is the Administration giving up on civil rights enforcement?
  - The Administration is doing no such thing.
  - Since President Reagan assumed office, the Justice Department has prosecuted more criminal violations of civil rights than any previous administration.
  - Funding levels for the principal civil rights enforcement agencies are 17.4% greater in the proposed 1984 budget than they were in 1980.
- o White-collar crime. With all its professed concern about "crime in the streets," why is the Administration so soft on antitrust violations and kindred offenses?
  - The Administration is requesting more than \$1 million in additional funding to send white collar criminals who gouge the consumer to jail.
- o Illegal Aliens. Will the Administration be spending more to enforce the immigration laws as well?
  - Yes. The Administration is requesting more than \$40 million in additional funding for the Immigration and Naturalization Service.

## ENERGY

### History.

The federal government's major involvement with energy policy is a relatively recent development, dating from the 1970s. Prior to that time, ample energy supplies and stable energy prices created little demand for federal intervention. Thus, federal energy activities were largely limited to the regulatory programs of the Federal Power Commission, the Department of the Interior, the National Science Foundation, and the nuclear-related programs of the Atomic Energy Commission.

The oil embargo and other turbulence of the 1970s, accompanied by the shock of rapid price increases and energy supply disruptions, led to significantly increased federal regulation of energy markets, subsidies for large-scale demonstration and commercialization projects for alternative energy technologies that were thought to offer long-term benefit.

In 1974, the Federal Energy Administration was created primarily to carry out greatly expanded oil regulation. In the following year, energy research and development activities of the Interior Department and the National Science Foundation were combined with non-regulatory activities of the Atomic Energy Commission under a new agency, the Energy Research and Development Administration. These activities were further consolidated in 1977 with the establishment of the Department of Energy (DOE).

### o Programs.

#### -- General research programs.

- \* Fossil energy program supports research to enhance the efficient use and delivery of coal, oil and natural gas.
- \* Conservation program supports long-term basic research toward creation of the technology base for private sector development of energy-efficient processes.
- \* Renewable energy program supports research and development to help provide a generic technology base for the private sector to use in developing advanced energy systems.

- \* Energy supporting research program fosters the development of basic scientific and technical knowledge in the physical sciences, the training of future energy professionals, and the analysis and assessment of related energy research and technical activities.
- \* General sciences program conducts basic research in high energy physics, nuclear physics, the life sciences and nuclear medicine.

-- Nuclear energy research programs.

- \* Nuclear program works to develop and demonstrate nuclear technology and conducts and supports research to enhance the safety of commercial reactors.
- \* Magnetic fusion program supports research toward scientific validation and development of the unlimited potential of nuclear fusion.

-- Energy production and power marketing produces domestic crude oil at the Naval Petroleum Reserves (NPR) and sells electric power through five power marketing administrations. Also provides uranium enrichment services primarily for commercial customers.

-- Regulation and information.

- \* Federal Energy Regulatory Commission (FERC) oversees the interstate operation of electric utilities, hydroelectric powerplants, and interstate natural gas and petroleum pipelines with the intended goal of ensuring adequate supplies at reasonable prices.
- \* Economic Regulatory Administration (ERA), because of decontrol of oil, no longer has oil pricing and allocation responsibilities, but continues to administer compliance program for violations that occurred before controls were ended.
- \* Energy Information Administration (EIA) provides central comprehensive energy data collection and analysis.

-- Energy emergency preparedness.

- \* Helps reduce problems associated with major disruptions of oil supplies by such means as storage in the Strategic Petroleum Reserve.
  - By the end of FY 1980, the Strategic Petroleum Reserve contained 98.2 million barrels. By the end of FY 1982, the cumulative fill for the reserve was 277.9 million barrels, or nearly three times as great.

-- Synthetic Fuels Corporation.

\* Functions as an investment bank providing "financial incentives," but not direct funding, to the private sector for the construction and operation of commercial-scale plants to produce synthetic substitutes for imported fuel.

\* The Corporation was established in June 1980, and has a total of \$14.9 billion in resources available for financial incentives.

o Costs.

-- In FY 1978, the budget for DOE -- excluding defense programs -- was \$9.2 billion.

-- In FY 1981, budget authority for energy programs was \$7.6 billion.

-- And in FY 1983, the level is \$5.1 billion, plus \$14.9 billion for the Synthetic Fuels Corporation.

o Administration Action to Date.

-- For FY 1982:

\* President Carter requested \$9.9 billion.

\* President Reagan requested \$6.9 billion.

\* Congress approved \$7.2 billion.

-- For FY 1983:

\* President Reagan requested \$5.0 billion.

\* Congress approved \$5.5 billion.

The President's Proposals for FY 1984.

o General research programs.

-- Reduce budget authority for fossil fuels research and development to \$94 million in 1984, from the 1983 level of \$217.5 million.

-- Reduce budget authority for conservation research programs in 1984 to \$74.4 million, from the the previous year's level of \$410.2 million, with the biggest savings resulting from the elimination of the state and local grants program.

-- Reduce budget authority for renewable energy research programs in 1984 to \$102.3 million, from the previous year's level of \$252.6 million.

- Increase budget authority for energy supporting research in 1984 to \$402.5 from the 1983 level of \$341.3 million.
- Increase budget authority for high energy and nuclear physics in 1984 to \$645.2 million from the 1983 level of \$554.1 million.
- o Nuclear energy research programs.
  - Increase budget authority for nuclear fission in 1984 to \$848.2 million in 1984 from the 1983 level of \$815.8 million.
    - \* The major factor in this spending rise is the increase in the breeder reactor systems program to \$602.5 million in 1984 from the 1983 level of \$549.9 million.
    - \* The Clinch River Breeder Reactor project would receive an increase in funding to \$270 million in 1984 from \$193.9 million in 1983.
  - Increase budget authority for magnetic fusion to \$467 million in 1984 from \$447.1 million in 1983.
- o Energy production and power marketing.
  - Increases budget authority to \$870.8 million in 1984 from \$85 million in 1983.
- o Regulation and information programs.
  - Reduce budget authority for the Federal Energy Regulatory Commission to \$34.6 million in 1984 from \$79.8 million in 1983. Though the request for new budget authority will be sharply reduced, an estimated \$60 million in revenues will make actual 1984 budget authority more than \$10 million higher than the 1983 level.
  - Reduce budget authority for the Economic Regulatory Administration (ERA) to \$11.9 million in 1984 from \$27.5 million in 1983.
- o Strategic Petroleum Reserve.
  - Reduce budget authority to \$742 million in 1984 from \$2.3 billion in 1984.
- o The Synthetic Fuels Corporation is expected to commit \$6 billion in 1983 and \$7.2 billion in 1984.



### Justification (General).

#### o Budget savings.

-- The President's request of \$2.8 billion in 1984 for all energy programs except atomic energy defense activities is about \$2 billion dollars less than the 1983 level.

#### o Continue promoting free market energy policies.

-- In accordance with oil price decontrol and other deregulatory actions, regulation budgets are being reduced.

-- The FY 1984 budget request limits the federal government to research and development where the costs and risks are high and the benefits too uncertain to justify private sector investment.

\* DOE is discontinuing or phasing out energy demonstration projects that are at an appropriate stage of development for market decisions.

\* This removes the government from making decisions more appropriately made in the marketplace.

#### o Elimination of unnecessary programs.

-- The 1984 budget proposes the elimination of R&D programs that have developed technologies to the point where the private sector can make appropriate investment decisions, which can in turn make new energy sources available to U. S. consumers at reasonable prices.

-- These include: active and passive solar heating and cooling, alcohol fuels, ocean thermal energy conversion, and hydropower.

#### o Adequate financing for critical programs.

-- In programs where there is clear national need for federal involvement, the President has requested increased budget authority.

-- These areas include: high energy and nuclear physics programs and remedial action to treat or stabilize radioactive wastes and to decontaminate and decommission some DOE facilities and sites.

Justification (Specific).o Research programs.-- Fossil Energy.

- \* Reductions are accomplished by continuing to concentrate only on high priority, long-term, high risk R&D which industry cannot be expected to undertake on its own, while leaving the demonstration and commercial introduction of new technologies to the private sector.

-- Conservation.

- \* Grants to state and local governments are proposed for elimination because the activities supported by the grants duplicate activities currently undertaken in other federal agencies or at the state level.

\* For example:

- Weatherization programs are provided sufficiently by HHS and HUD.
- Grants to encourage schools and hospitals to seek fuel efficiency are unnecessary, since previously high energy prices have provided ample incentive to use energy efficiently.
- The Energy Extension Service and State Energy Conservation Plan programs duplicate information and efforts already ongoing at the state level. These grants were intended only as seed money to get these efforts started.

-- Renewable energy.

- \* Basic research and longer term development activities have been retained and strengthened.
- \* Near-term development and demonstration activities that the private sector can pursue more effectively have been reduced.

-- Energy supporting research.

- \* The proposed increase in budget authority for these activities will help expand the scientific and engineering knowledge base on which the nation's future energy options depend.

-- General science.

- \* The proposed increase in budget authority for research in high energy and nuclear physics will enhance knowledge of the basic properties and interactions of atomic nuclei, the constituents of sub-nuclear matter, and the fundamental forces of nature.
- \* Federal funding is necessary because the benefits are mainly of a long-term nature.

o Nuclear energy research programs.

-- Nuclear fission.

- \* The \$76.1 million increase in budget authority for nuclear fission research programs is requested to provide sufficient funding for two critical areas:
  - The general breeder reactor systems program, which are intended to create nuclear technologies that produce more fuel than they consume, would continue to be sufficiently funded because the long-term financial benefits remain insufficiently defined to induce industry to finance these activities.
  - Since they are critical for the protection of citizens safety, remedial programs to treat or stabilize radioactive wastes will continue to be sufficiently funded in 1984.
- \* Clinch River breeder reactor project.
  - The increase in funding for the Clinch River breeder reactor project will facilitate scheduled construction activities. Since the 1983 continuing appropriation was insufficient to finance these construction activities, more funds are requested for 1984.

-- Magnetic fusion.

- \* The \$20 million increase would finance the start of operations for new fusion facilities, including the Large Coil Project, the Tritium Test Assembly, and the Tokamak Fusion Test Reactor.
- \* These facilities are essential to the successful development of fusion energy, which could ultimately provide access to an essentially inexhaustible domestic energy resource base.

o Energy production and power marketing.

- A major portion of the requested \$312.9 million budget increase is for continued construction of the Portsmouth (Ohio) Gas Centrifuge Enrichment Plant.
- \* Federal support is intended to aid in the development of a process to enrich uranium for commercial use at much lower cost and far less risk.
- \* Lowering production costs is essential for the U.S. to remain competitive in the world market.

o Regulation and information programs.

- Federal Energy Regulatory Commission (FERC).
  - \* FERC charges regulated parties filing fees and license charges, with these receipts going into the Treasury as "miscellaneous collections."
  - \* The Administration is proposing legislation to allow these collections as offsetting receipts for the agency.
  - \* This would bring \$60 million to FERC in 1984 and reduce its need for new budget authority accordingly.
- Economic Regulatory Administration (ERA).
  - \* The 1984 request is primarily for completion of the litigation of alleged pricing violations occurring before the President's decontrol order of January 1981.
  - \* Since relatively few cases should remain unresolved in 1984, the President's proposal to reduce budget authority from \$27.5 million in 1983 to \$11.9 million in 1984 is justified as this program draws to a conclusion.

o Energy emergency preparedness.

- Strategic Petroleum Reserve.
  - \* The proposed budget reduction reflects the increasingly favorable world oil markets and significant improvement in our ability to protect ourselves should a disruption occur. In particular, there is more oil in storage and excess production capacity in the world oil market, and self-defeating price controls on oil have been dismantled.
  - \* Still, acquisition activities will result in a total of 410 million barrels in storage by the end of 1984, assuming a fill rate of 145,000 barrels per day, more than sufficient to protect the U. S. in the event of another oil shortage.

o Synthetic Fuels Corporation.

-- The budget for the Corporation is outside the Administration's control. All of the funds for administration and programs have been made available by the Supplemental Appropriations Act of 1980. These funds have been delivered in three lump sums, which total \$14.9 billion.

\* The Act made \$6 billion available immediately upon passage in July 1980.

\* The Act made \$6.2 billion available on June 30, 1982.

\* \$2.7 billion in unused funds made available for DOE by the Act was transferred to the Corporation after it was declared operational in February 1982.

Questions and Answers.

- o Federal responsibility. By further cutting Federal energy programs, isn't the Administration putting U. S. energy policy in the hands of the oil companies?
  - Largely because of this Administration's decontrol and deregulation activities, oil companies have been given much greater ability to find and produce oil. These efforts, along with conservation and worldwide production increases, have had the following results:
    - \* Domestic oil production increased in 1982, reversing a previous downward trend.
    - \* Gasoline prices are down at least 10¢ per gallon below their levels immediately before decontrol.
    - \* Residential heating oil prices have begun to fall after rapid run-ups in the late 1970s.
    - \* Profits for the 27 largest U.S. oil and gas companies for the first 9 months of 1982 were 26% lower than during the first 9 months of 1981. In 1981, profits were down 3% from 1980.
  - Moreover, the Administration's continued support for basic and applied research will facilitate the provision of even more efficient and cost-competitive energy sources and technologies. These will further diversify the nation's energy base.
- o Alternative energy R&D. By sharply cutting back on research, isn't the Administration abandoning essential efforts to develop alternative fuels?
  - Quite the contrary. By limiting funding to long-term, high-risk research activities, the government has enhanced the country's ability to respond to its energy needs with a broader technical base that will support private sector efforts to develop and demonstrate a greater diversity of more economical technologies than those previously supported by the government.
  - The Administration's proposed reductions are in the demonstration of the commercial viability of technologies, which is more appropriately the role of the private sector.

- o Protection against disruptions. By reducing regulatory budgets, isn't the Administration increasing the likelihood of chaotic energy markets in the event of another energy disruption.
  - Regulations designed to minimize anticipated or actual emergencies, such as the 1973 oil disruption, the 1977 natural gas shortage, and the 1979 oil shortfall, have in fact made these problems far worse by holding prices artificially low, discouraging domestic production, and misallocating limited supplies.
  - With the deregulation of oil, the proposed deregulation of natural gas and the availability of the Strategic Petroleum Reserve, the U.S. is now far more prepared to respond to disruptions in foreign oil supplies because the marketplace is better equipped to provide the needed resources.
- o Strategic Petroleum Reserve. How can the Administration justify reducing budget authority for the SPR from \$2.3 billion in 1983 to only \$742 million in 1984?
  - The world oil market has changed dramatically for the better since the SPR was first established.
    - \* When the original plans were published in 1977, the government forecast U.S. dependence on foreign oil at 11 million barrels per day by 1985. DOE currently projects imports of only about 6 million barrels per day, or 45% less.
    - \* The most recent data provided by the Central Intelligence Agency show that oil producing countries in the free world have capacity to produce at least an additional 10 million barrels per day. This greatly reduces the prospect of a shortage from a disruption involving one or two Middle East producers.
  - Current SPR stocks are three times larger than two years ago. They total 300 million barrels, or more than 5 months' worth of protection should half of U.S. imports be interrupted, 11 months' worth of protection against cut-off of current levels of Arab OPEC imports.
  - Counterproductive controls on U.S. oil markets have been eliminated. As experience in other countries clearly demonstrates, elimination of controls should make any subsequent disruption less difficult to deal with.

- o Dismantlement of DOE. Has the President given up on his plans to dismantle the Department of Energy?
  - Early in 1982, the Administration proposed legislation to the Congress to eliminate the Department of Energy as a separate Cabinet Department.
  - Through administrative action and less extensive legislation, this Administration has effectively eliminated many of the portions of DOE that were not appropriate for federal activity, such as:
    - \* Price and allocation regulation of the oil market.
    - \* Financing of commercialization activities.
  - The President continues to support elimination of the Department of Energy as a separate Cabinet Department.
- o Natural gas deregulation. Won't deregulating natural gas prices hurt the consumer?
  - No. Deregulating prices as the Administration proposes to do, is the best way to protect consumers from higher prices.
  - Current law is defective. It encourages production of high-cost gas and discourages production of low-cost gas. As a result, prices rise and consumers are worse off.
  - The Administration proposal would restore market incentives and encourage efficient production.
  - When the President decontrolled oil prices in 1981, some said prices would go up to \$2 per gallon. They were wrong. We are confident that market forces will also work to protect consumers of natural gas.



## ENVIRONMENT

### History.

The federal role in protecting the environment, extending to the previous century, intensified in the World War II era. The General Land Office, created in 1912, and the Grazing Service, created in 1934, were combined into the Interior Department's Bureau of Land Management in 1946. The Commerce Department's Bureau of Fisheries (1871) and Agriculture's Bureau of Biological Survey (1885) were combined into Interior's Fish and Wildlife Service in 1939.

Various other environmental agencies have been established over the last fifteen years. But today, the Environmental Protection Agency (EPA) serves as the lead federal agency for protecting the environment. Since its creation in 1970, EPA has worked to control and abate air, water, hazardous waste, radiation, pesticides and toxic substances pollution.

Other agencies with an interest in environmental protection include the National Oceanic and Atmospheric Administration (NOAA), established by the Department of Commerce in 1970, the National Weather Service, and Interior's Bureau of Commercial Fisheries.

### o Programs.

#### -- Pollution control and abatement.

\* Includes federal efforts, and assistance to state and local governments, to control and reduce air, water and land pollution through several means, including:

- Regulatory, enforcement and research programs.
- Planning grants to states.
- Training programs.
- Hazardous substance response fund.
- Oil spill pollution fund.
- Sewage treatment plant construction grants.

\* In FY 1973, \$1.1 billion was devoted to these programs. In FY 1981, the level had grown to \$5.2 billion. In FY 1983, the level is \$4.3 billion.

#### -- Water resources.

\* Involves funding of the Army Corps of Engineers, Interior's Bureau of Reclamation, and Agriculture's Soil Conservation Service to continue construction, operation and maintenance of water resources facilities.

- \* In FY 1973, \$2.2 billion was spent on water resources activities. In FY 1981, the amount was \$4.2 billion. In FY 1983, the level is \$3.9 billion.

-- Conservation and land management.

- \* The Department of Interior's Bureau of Land Management administers approximately 325 million surface acres of land. The National Oceanic and Atmospheric Administration provides grants to states for coastal zone management. The Department of Agriculture assists private land owners in providing for the conservation of farm lands. It is also responsible for management of the 191 million acre national forest system.

- \* In FY 1973, conservation and management programs cost \$725 million. By FY 1981, the cost had jumped to \$2.6 billion. And in FY 1983, the cost is \$2.7 billion.

-- Recreational resources.

- \* Includes operation and preservation of national parks, recreation areas, historic sites, wild and scenic rivers, fish hatcheries, and wildlife refuges.
- \* The budget for these programs was \$566 million in FY 1973. By FY 1981, the level was \$1.6 billion. And in FY 1983, the level is \$1.7 billion.

-- Other natural resources.

- \* Involves research, development and information programs administered primarily by the U. S. Geological Survey, the Bureau of Mines and the National Oceanic and Atmospheric Administration.
- \* In FY 1973, the budget for these activities totalled \$570 million. In FY 1981, the level was \$1.5 billion. And in FY 1983, the level is \$1.6 billion.

o Costs.

-- Total.

- \* In FY 1973, budget outlays for environment and natural resources activities totalled \$4.7 billion.
- \* In FY 1981, the level was \$13.5 billion.

-- EPA.

- \* In FY 1973, outlays for EPA totalled \$1.1 billion.
- \* In FY 1981, the level was \$5.2 billion.

o Administration Action to Date.

-- For FY 1982:

- \* President Carter requested \$13.7 billion in budget authority, including \$5.3 billion for EPA.
- \* President Reagan requested \$10.3 billion, including \$1.4 billion for EPA.
- \* Congress approved \$11.2 billion, including \$3.7 billion for EPA.

-- For FY 1983:

- \* President Reagan requested \$8.4 billion for environmental programs, including \$3.6 billion for EPA.
- \* Congress approved \$11.2 billion for environmental programs, including \$3.7 billion for EPA.

The President's Proposals for FY 1984.

- o The Administration requests a reduction in budget authority from the 1983 level of \$11.2 billion to \$8.9 billion in 1984. The request for EPA is for a reduction in budget authority from the 1983 level of \$3.7 billion to \$3.6 billion in 1984.

-- Pollution control and abatement.

- \* Reduce outlays from the 1983 level of \$4.3 billion to \$4.1 billion in 1984.

-- Conservation and land management.

- \* Reduce outlays from the 1983 level of \$2.7 billion to \$2.1 billion in 1984.

-- Recreation resources.

- \* Reduce outlays from the 1983 level of \$1.7 billion to \$1.5 billion in 1984.

-- Other natural resources.

- \* Reduce outlays from the 1983 level of \$1.6 billion to \$1.4 billion in 1984.

Justification (General).

- o Proper focus of federal funds. The 1984 budget supports two principal objectives:
  - The protection of the American people from harm by air and water pollution or toxic substances. The only activities that are proposed for increased funding are those which deal with the protection of American health and safety, including:
    - \* The Hazardous Substances Response Fund, or "Superfund", which is proposed for a 43% increase in budget authority, enabling the effective operation of its toxic wastes clean-up program.
    - \* Mining reclamation and regulatory grants, which will be increased to allow all coal mining states to fully implement surface mining reclamation and regulatory programs.
  - More appropriate method of financing federal activities.
    - \* A proposed charging of user fees is intended to require the users of federal lands and facilities to pay a greater share for their upkeep and maintenance since they receive the major benefit from these lands and facilities. The budget proposals establish fees, for example, for the use of recreation resources such as national parks, forests, wildlife refuges, and Corps of Engineers recreation facilities.
    - \* The reduction of funds for certain activities, such as forestry research, is designed to eliminate the burden on taxpayers to provide for projects which benefit, and should be financed by, industry.

Justification (Specific).

- o Pollution control and abatement.
  - The proposed reduction in outlays for EPA's regulatory, enforcement and research programs reflects:
    - \* EPA's continued emphasis on increasing efficiency and accelerating the delegation of environmental programs to the states.
    - \* A proposed user fee for ocean dumping, which will be initiated in 1984.
  - The proposed \$300 million decrease in outlays for sewage treatment plant grants reflects:
    - \* The completion of expenditures of grants awarded before 1982.

o Water resources.

- Most of the funds for water resources are for continued construction of projects started in previous years.
- The \$650 million decrease in outlays reflects:
  - \* The fact that many of these projects are nearing completion.
  - \* Increased receipts from three user fee proposals. The Administration proposes to recover capital and operating expenses of deep draft and inland waterway projects, and to permit the charging of fees at Corps of Engineers recreation facilities.

o Conservation and land management.

- Generally, changes in these programs reflect the following Administration efforts:
  - \* To improve the management and productivity of the national forests and public lands.
  - \* To streamline mineral leasing programs.
  - \* To place maximum responsibility with the states for coal surface mining regulatory and reclamation programs.
- The \$283 million reduction in outlays for the management of national forests, cooperative forestry and forestry research reflects:
  - \* Changes in financing due to initiation of the reforestation trust fund in 1983.
  - \* Administrative proposals to produce timber, recreation and other outputs at the lowest possible costs.
  - \* A reduction of federal funding for forestry research projects that directly support industry, and for other low-priority projects.
  - \* The elimination of grants to the states for fire protection and technical assistance in forest management, which states can now adequately fund on their own.
  - \* Inclusion of a \$59 million forest fire supplemental in FY 1983; a supplemental for FY 1984 will be transmitted with the FY 1985 budget.
- The \$38 million decrease in outlays for the management of public lands reflects:

- \* Vastly simplified procedures for the administration of the Outer Continental Shelf oil and gas leasing program.

- \* Sales of unneeded public lands.

- o Recreational resources.

- The \$218 million reduction in outlays for recreation resources programs reflects:

- \* Zero funding in 1984 for grants to states for the acquisition of local recreation lands and facilities and for historic preservation, justified by two key factors:

- The low level of necessity for recreation expenditures in a stringent budget year.

- The tax incentives now applicable for historic preservation.

- \* A proposed increase in fees for recreational use of national parks, forests, and related facilities, so that those who use them will pay more for their upkeep and maintenance than the general taxpayer who does not use them.

- o Other natural resources.

- The \$130 million reduction in outlays for these activities reflects:

- \* A reduction in funding at the U.S. Geological Survey and the Bureau of Mines for applied research and development, which should be the responsibility of the mining industry.

- \* Savings in the budget for NOAA through increasing the share of costs borne by users of avialational marine maps and charts and through shifting funding responsibilities for other activities to direct beneficiaries and state and local governments. In addition, lower priority activities are being phased out and the polar orbiting satellite system would be reduced to one satellite in orbit instead of two.

Questions and Answers.

o Hazardous wastes. Won't the reduction in outlays for environmental programs hamper the EPA's ability to protect the American people from danger from hazardous wastes?

-- No. Budget cuts will not affect this area. In fact, the outlays for the Hazardous Substance Response Fund, which provides money for cleaning up abandoned hazardous waste sites and for responding to hazardous chemical spills, will continue to increase under the President's proposal.

\* In 1982, the Fund had outlays of \$77 million.

\* In 1983, the Fund's outlays were more than doubled to the level of \$168 million.

\* And in 1984, the President's proposal is for \$246 million, a nearly 50% increase.

o Air and water pollution enforcement. Don't the cuts in budget authority and personnel for air and water pollution enforcement hamper EPA's ability in these areas?

-- No. In fact, cuts are not being proposed in EPA's budget for enforcement.

\* Air pollution enforcement.

- The Administration's proposal is to increase budget authority for air pollution enforcement from the 1983 level of \$20.5 million to \$20.7 million in 1984.

- Staffing for enforcement activities will decrease only marginally from the 1983 level of 370 people to 366 people in 1984.

\* Water pollution enforcement.

- The Administration proposes an increase in budget authority for water pollution enforcement from the 1983 level of \$24.6 million to \$27 million in 1984.

- Staffing will decrease only slightly from the 1983 level of 608 people to 586 people in 1984. Since the Administration's proposal is to delegate more responsibility for water pollution enforcement to the states, this marginal decrease of 22 employees is more than justified.

- o Sale of federal lands. Isn't the Administration's proposal to sell federal lands sacrificing our nation's precious natural heritage?
  - Through the years, the federal government has been justifiably accused of mismanaging the lands it owns. The biggest area of mismanagement has been the blanket retention of such lands.
  - The Property Review Board, established by President Reagan last year, has the mission of identifying unused or underutilized real property owned by the federal government and disposing of this property by sale or transfer.
  - The President is not proposing a massive sale of federal lands. Of the 714 million acres managed by the Interior and Agriculture Departments, only about 12.5 million acres -- a mere 1.8% -- would even be considered for sale.
    - \* National treasures, such as parks and wilderness lands, will not be considered for sale.
  - The benefits that can accrue from such sales are great. They include:
    - \* Local control of land use decisions.
    - \* Increased local property tax receipts.
    - \* The return of the property to productive economic use. For instance:
      - In the last 20 years, 94 military installations were closed and transferred to state and local governments and to private parties.
      - The redevelopment of these facilities created 123,777 civilian jobs, 68 industrial parks, 40 municipal airports, and facilities for 48,000 college students.
    - \* Increased federal revenues which can be applied to retire part of the national debt.
      - Sales are estimated to yield about \$500 million in 1984.
    - \* A reduction in cost to the taxpayers to maintain and protect the property.
      - A reduction in outlays of \$121 million is requested for property management in 1984, primarily due to the sale of some property.



## FEDERAL CIVILIAN EMPLOYMENT

### History.

Early in the federal government's history, civil servants were selected and employed principally through a "spoils" system. But in 1883, the U.S. Civil Service Commission (CSC) was established to administer a federal personnel system in which selection would be based on merit. A 1978 action divided the responsibilities of the CSC between four agencies, with the basic operations and personnel policies going to the new Office of Personnel Management.

### o Programs.

#### -- Employment activities.

- \* Recruitment program involves the conduct of nationwide searches through regional and area offices. The Job Information Center network posts job requirements and other information in various locations in hundreds of cities.
- \* Personnel policy and management activities address such matters as pay, classification, standards for promotion, labor-management relations, and affirmative action for particular societal groups, especially veterans and the handicapped.

#### -- Retirement programs.

- \* Employee contributions are required to make possible the provision of benefits in the event of workers' retirement or death. These contributions -- a set percentage of the workers' salaries -- are supplemented by contributions from the agencies for which they work and by transfers from the general fund to the retirement fund.
- \* Eligibility to receive full benefits exists for workers who are 55 years old and have worked for the federal government for at least 30 years, for workers 60 years old who have worked at least 20 years, and for those at age 62 who have worked at least 5 years.

### o Program changes.

- In 1962, a system was instituted to offer retirement cost-of-living increases when the Consumer Price Index increased by at least 3% and stayed at that level for at least 3 months.
- In 1969, Congress provided a 1% bonus to the workers to compensate for the lag in getting raises after increases in the CPI.

- In 1969, Congress enacted legislation to allow workers to retire at age 55 with full benefits.
- In 1976, Congress eliminated the 1% add-on to retirement cost-of-living increases. This practice was replaced with a provision for semi-annual increases based on the actual rise in the CPI.
- In 1978, the mandatory retirement age for federal workers was repealed.

o Coverage.

-- Employee pay.

- \* In 1970, the number of non-Postal, full-time workers on the civil service rolls was 2.1 million.
- \* In 1981, the number, including Postal annuitants, was 2.0 million.
- \* And in 1982, the number was 2.0 million.

-- Retirement.

- \* In 1970, the number of retired Federal employees and survivors receiving benefits was 958,000.
- \* In 1981, the number, including Postal annuitants, was 1.8 million.
- \* And in 1983, the number is 1.9 million.

o Costs.

-- Employee pay.

- \* In FY 1970, the federal employee payroll totalled \$20.4 billion.
- \* In FY 1981, the payroll totalled \$47.5 billion.
- \* And in FY 1982, the payroll totalled \$49.6 billion.

-- Retirement.

- \* In FY 1970, the amount of money paid out in retirement benefits was \$2.7 billion.
- \* In FY 1981, the level was \$17.8 billion -- a more than five-fold increase in a decade.
- \* And in FY 1982, the level was \$19.5 billion -- a 10% increase in a single year.

o Administration Action to Date.

-- For FY 1982:

- \* President Reagan proposed, and Congress enacted, annual cost-of-living increases rather than the semi-annual increases that had existed since 1976.
- \* Savings were projected to be \$253 million in FY 1982 and \$3.2 billion between FY 1983 and 1985.

-- For FY 1983:

- \* President Reagan and Congress agreed to limit pay increases for blue collar workers to that for white collar workers -- 4% -- in FY 1983. This measure is expected to save \$1 billion.
- \* President Reagan proposed, and Congress enacted, three retirement reforms that were projected to save \$3.9 billion over three years.
  - Delay the cost-of-living increases for federal retirees by 1 month for each of the following three calendar years.
  - Reduce the cost-of-living adjustment to one-half of CPI for federal retirees under age 62, but not for survivors and the disabled.
  - For military retirees who are employed in civil service positions, reduce their civil service pay by the dollar amount of military retirement COLA that they receive.

The President's Proposals for FY 1984.

o Employee salaries.

- The President's budget anticipates granting no pay increases for federal workers in FY 1984.

o Retirement.

- Require new federal employees to be covered by both Social Security and the Civil Service Retirement System.
- Move the age at which an employee may retire with full benefits from age 55 to age 65, but permit partial payment of retirement benefits at age 55 for non-disabled individuals with 30 years of service.
  - \* Reductions would be 5% per year for each year of retirement before age 65.
  - \* This reform would be phased in over a ten year period.

- Increase payments by employees and their agencies into the Civil Service Retirement Trust Fund to 9% in 1984, and to 11% in 1985. Currently, employees and their agencies each pay 7% of the employee's salary into the system, as well as 1.3% each for Medicare retirement benefits.
- COLA for retiree's pensions.
  - \* For 1984, apply to federal retirees the six-month freeze on COLAs enacted for Social Security recipients.
  - \* In 1985, allow full COLAs for retirees 62 and older based on the CPI. Retirees below age 62 would receive 50% of that amount.
- In three years, the Office of Personnel Management would return to the practice (called "High Five") of basing retirement benefits on the average of the employee's five highest yearly salaries. In 1969, this practice had been replaced by an averaging of the three highest yearly salaries ("High Three").

#### Justification (General).

- o Reduce costs. The President's proposals are expected to reduce government costs:
  - For payroll by \$3.3 billion in 1984.
  - For the retirement system by \$1.7 billion in 1984.
- o Restore the federal retirement system to sound financial footing.
  - The retirement system and its level of benefits grew sharply through the 1970s, to the extent that there exists today \$500 billion in unfunded liability.
  - The 7% of employees' salaries contributed into the retirement system amounts to only 20% of the level of funds needed to pay retirement benefits each year. The other 80% comes from the government, and ultimately the taxpayers.
  - The President's proposal to increase employee contributions to 9% in 1984 and to 11% in 1985 would result in the employees providing 50% of the amount needed to pay retirement benefits, thus placing the system on a more sound financial footing.

- o Bring the federal employment and retirement system more in line with private sector.
  - The elimination of cost-of-living pay increases during times of excessive spending parallels the private sector practice of holding salaries level, or even reducing them, during times of financial difficulty.
  - The reduction of retirement benefits for those who retire early will bring federal retirement policy more in line with private sector practices, thereby reducing some of the financial strain on the federal retirement system.

#### Justification (Specific).

##### o Employment.

- A pay freeze for federal employees is in order.
  - \* Federal costs need to be contained.
    - In 1970, federal employees' salaries totalled \$20.4 billion.
    - Now, they consume \$49.6 billion, or 2 1/3 times as much.
  - \* The decline in the rate of inflation makes the pay freeze practical.
    - The inflation rate has fallen by more than two-thirds, from 12.9% in 1979-1980 to less than 4% for the last 12 months.
    - Therefore, employees would not be hurt significantly by a pay freeze now.

##### o Retirement programs.

- Coverage by both Social Security and the Civil Service Retirement System.
  - \* This provision was necessary as part of a package to place Social Security back on a sound financial footing.
  - \* The Office of Personnel Management has stated that it is prepared to offer an integrated Social Security pension plan for new federal workers.

-- Benefit restraint.

- \* Encouraging employees to work longer will both increase contributions and reduce payout drain on the beleaguered retirement system.
- \* By reducing benefits for early retirement, many employees with valuable knowledge and experience will be encouraged to extend their government service. This should increase government efficiency, and reduce training costs.

-- Increased contributions.

- \* Though benefits have become increasingly costly, the percentage of salary employees contribute into the retirement system has remained constant since 1969.
- \* The proposed increase in employee contributions would reduce the amount the taxpayers must provide.

-- COLA reforms.

- \* COLA reforms are necessary because of the enormous drain such automatic benefit increases have on federal revenues.
  - COLAs are not funded under the retirement system's current financing structure. Thus, the payment of cost-of-living increases is a current tax burden that must be paid by existing workers.
  - Over the last 15 years, COLAs have boosted retirees' pay faster than active employees' pay has increased.

-- Return to "High Five".

- \* High Three was instituted in 1969 to keep benefits abreast with high inflation.
- \* The return to the High Five computing of benefits is more appropriate now that the President's economic program has substantially reduced the level of inflation.

### Questions and Answers.

- o Fairness to federal workers. Don't the pay freeze, Social Security coverage, pension contribution increase, benefit reductions and the earlier hiring freeze constitute an all-out assault on federal workers?
  - No. These measures are all necessary steps to keep the federal employment costs within reasonable limits and to keep the federal retirement system solvent.
    - \* From 1970 to 1982, the total federal payroll increased from \$20.4 billion to \$49.6 billion.
    - \* From 1970 to 1982, retirement costs increased from \$2.7 billion to \$19.5 billion.
  - Current federal civil service employees will continue to be covered only by the Civil Service Retirement System; they will not have to pay Social Security taxes as long as they continue working for the federal government.
    - \* The Office of Personnel Management has stated that it is prepared to offer an integrated Social Security-pension plan for new workers.
  - Even with these changes, the federal systems would be substantially more generous than those in the private sector.
    - \* Some studies have indicated that even after these changes, pay and benefits for federal workers would often remain better than those available to private sector workers.
    - \* The President's proposal -- allowing unreduced benefits for retirees at age 65 and reducing them by 5% per year for those who retire as early as age 55 -- would result in retirement benefits for federal employees that are as good as, or better than, those offered to most private sector retirees. Beyond 1984, the Federal system would still provide cost-of-living adjustments. Few private plans offer COLAs fully indexed to the CPI.

- o Cost-of-living increases. Federal employees have to meet expenses just like everyone else. If prices are going up, why shouldn't they get a cost-of-living increase?
  - The pay system was never intended to give cost-of-living increases merely for the sake of giving COLAs, but to provide annual increases to keep federal pay comparable with private sector pay. Some data indicates that the method for measuring comparability is faulty and that federal employees are receiving more pay than their private sector counterparts.
  - The pay law gives the President the authority to set lower pay increases when economic conditions make it necessary to do so.
  - With the inflation rate having fallen by two-thirds, freezing pay increases for a single year would not be harmful to federal workers.
- o Retention of high quality workers. How can you expect to retain high-quality employees when you freeze their pay and increase their payroll taxes?
  - Since federal pay and benefits remain comparable and sometimes better than those in the private sector, no retention problem is anticipated.
  - If a recruitment or retention problem ever existed because of private sector competition, the government could use its Special Salary Rates Program to maintain its competitive position in those areas. This program allows for the provision of salary beyond the normal scale.
  - Promotions and limited merit pay increases would still be permitted.



**LEGAL SERVICES CORPORATION****History.**

The Legal Services Corporation (LSC) is a quasi-governmental agency established by Congress in 1974. The purpose of the LSC is to provide funding for legal assistance in civil cases to low-income persons who would otherwise be unable to afford legal counsel.

**o The Program.**

- The LSC is governed by an 11-member board of directors, which makes decisions independent of the Administration or state and local elected officials.
- The corporation funds legal aid programs for low-income persons, and makes grants to and contracts with individuals, firms, corporations, organizations, and state and local governments for the purpose of providing legal assistance to these clients.

**o Program Changes.**

- Congress has repeatedly sought to curb LSC abuses by limiting the types of legal cases and operating methods of local grantees.
- LSC's authorization expired in 1980. For the past two years, Congress has been unable to agree on the appropriate organizational structure and funding mechanism for legal aid.

**o Costs.**

- Initial outlays for the Legal Services Corporation were \$72 million in FY 1975.
- This amount rose, by an average annual growth rate of 35%, to \$324 million in FY 1981.

**o Administration Action to Date.**

- For FY 1982:
  - \* President Carter proposed outlays of \$347 million.
  - \* President Reagan proposed to eliminate the LSC outright.
  - The President requested no new budget authority -- only \$35 million in outlays to cover the costs of phasing out the corporation.

\* Congress refused to eliminate the agency, approving \$241 million in budget authority; actual outlays for that year came to \$258 million.

-- For FY 1983:

\* President Reagan again proposed the elimination of LSC, with phase-out outlays of \$12.8 million.

\* By continuing resolution, Congress maintained the agency, and its FY 1982 funding levels.

#### The President's Proposals for FY 1984.

o The Administration proposes that the LSC not be reauthorized and that no further separate funding be provided.

-- LSC funding already appropriated by Congress would be used to discharge responsibilities in existing cases, and to shut down the agency.

o As an alternative to the LSC, the Administration proposes giving states the flexibility and discretion to use block grant funds for legal services activities, and encouraging private attorneys to fulfill their ethical obligations to serve the poor.

#### Justification.

o LSC funds have been used not so much to help the poor with their personal legal problems -- which was the intent of the original law -- but to create "rights" and "benefits" through the courts that Congress and the state legislatures have not granted, and in some cases have refused to grant.

o Even in the best of budget times, separate federal funding for legal aid is not appropriate and is not an effective way to meet the legal needs of low-income families.

o The Administration's \$2.5 billion Social Services Block Grant includes, and can be made to further include, adequate authority to fund whatever legal services activities states may wish to provide for their citizens.

-- These sources of funds can give more flexibility to the states, and permit them to offer legal services that are more directly responsive to the needs of their citizens than those offered by the present Legal Services Corporation.

Questions and Answers.

- o The "controversy" over LSC. When critics say that the LSC is "controversial," aren't they really saying that it's doing its job? Helping the poor is controversial to some people.
  - Helping the poor is not the issue. The issue is that the LSC has often not devoted itself to helping the poor in individual legal matters as Congress intended.
    - \* Congress has repeatedly sought to limit LSC involvement in outrageous class action lawsuits involving such areas as transsexual rights and limitations on research to improve agricultural productivity.
- o Conservative vendetta. Even allowing that LSC has overstepped its bounds on a few occasions, is that any reason to abolish the agency? Isn't the drive against LSC the work of conservative ideologues?
  - LSC's misguided social activism has drawn fire from liberals as well as conservatives.
    - \* For example, in an editorial on the agricultural productivity case cited above, The New Republic (hardly a house organ of conservative ideologues) declared that the case was an example of how "legal aid lawyers use poor people as guinea pigs in an attempt to impose through the courts some fanciful middle-class view of social justice."
  - Again, the issue here is not legal aid for the poor; the issue is whether LSC is the best way of providing this assistance.
- o Reagan reform a sham. If LSC is abolished, will the poor get any legal aid at all? It is easy enough to say, "Let the states or private attorneys do the job," but will they do it?
  - The states.
    - \* The states will be able to use federal block grant money to set up their own legal aid programs. With a separate Corporation and its direct federal funding, states have had little incentive to use other funds for legal aid.
    - \* States and localities are now actively experimenting with a variety of approaches for meeting the legal needs of the poor -- pro bono panels and clinics staffed by private attorneys, volunteer efforts by law firms and corporate legal departments, and

funding new legal aid programs from court filing fees and interest on lawyers trust accounts (IOLTA) are some of the methods that are beginning to be tried.

-- Private attorneys.

\* Private attorneys have a duty to assist indigent clients. The American Bar Association Code of Professional Responsibility states:

"The basic responsibility for providing legal services for those unable to pay ultimately rests upon the individual lawyer....Every lawyer, regardless of professional prominence or professional workload, should find time to participate in serving the disadvantaged."

\* There are nearly 600,000 attorneys in this country, and the gross income of law firms exceeds \$20 billion per year. If each attorney devoted less than one hour per week to helping the indigent, they could provide more legal services than the whole quarter-billion dollar LSC program.

\* Restrictions on advertising, competition, and other obstacles to the free play of market forces in the legal profession have been significantly reduced in recent years.

- This development has already increased the availability of low-cost legal services.

- Private legal clinics now advertise routine services, such as drafting wills, filing divorces, and handling landlord/tenant and consumer finance problems at low flat rates.

-- Law schools.

\* Some law schools operate legal clinics: the poor get free legal advice, and law students get work experience.

\* With 35,000 graduates per year, greater involvement of law schools would significantly increase the amount of services available.

-- There is every reason to believe that these trends will continue, and that significant legal assistance for the poor can be made available without the current quarter-billion cost to the taxpayers.

## CONVENTIONAL DEFENSE

### History.

During the late 1940s and early 1950s, America's virtual monopoly on intercontinental nuclear systems meant that our requirements for conventional war were relatively small. The Soviet Union understood that we might respond to a conventional attack against ourselves or our allies with an atomic attack on the aggressor.

As the 1950s ended, however, the Soviets began developing and acquiring long-range nuclear capabilities. As their capacity for long-range and conventional attack continued to grow, the U.S. threat to respond to a conventional attack with massive nuclear retaliation became less credible; hence, it was not an effective deterrent.

Accordingly, the U.S. has had to maintain its conventional forces at a level sufficient to respond to potential non-nuclear challenges. In particular, we have had to maintain land forces in Europe and the Far East, and naval forces in the Pacific and Indian Oceans and in the Mediterranean Sea.

Naval power has become increasingly important as U.S. strategic dependence on foreign resources has grown. This country relies on sea traffic to supply 69 of its 72 critical raw material requirements, to say nothing of the importance of the sea to our international commerce. We need a strong Navy to ensure that the sea lanes are kept open.

### o The Program.

-- Conventional, or general purpose forces, are the largest component of the U.S. defense program.

\* To be fully effective, these forces must be supplied with up-to-date weapons and equipment, as well as spare parts and munitions.

\* In addition, we must have the air and sea cargo and troop transport systems to deliver these forces to crisis areas anywhere in the world.

-- Conventional forces to be supported include the following:

\* Land forces, including Army, Navy, and Marine Corps divisions.

\* Tactical air forces, including those of U.S. Air Force, Navy, and Marine Corps.

- \* Naval forces, including aircraft carriers, nuclear-powered attack submarines, general purpose warships, and amphibious assault ships.

- \* Airlift and sealift forces.

o Costs.

- Budget authority for general purpose forces was \$27.7 billion in FY 1970, rising to \$68.8 billion in FY 1981.

- This represents only about 1% growth in real terms over the 12-year period.

o Administration Action to Date.

- For FY 1982:

- \* President Carter proposed a total of \$106.1 billion for general purpose forces, airlift and sealift, guard and reserve, and supply and maintenance.

- \* President Reagan proposed a total of \$125.3 billion for these functions.

- \* Congress approved a total of \$122.7 billion.

- For FY 1983:

- \* President Reagan proposed a total of \$146.9 billion for these functions.

- \* Congress approved a total of \$136.6 billion.

The President's Proposals for FY 1984.

o Readiness.

- Improved readiness is the Administration's first priority for conventional forces.

- Increase aircraft spare part purchases from \$6 billion in FY 1983 to \$7.9 billion in FY 1984.

- Increase munitions procurements from \$9 billion in FY 1983 to \$11.6 billion in FY 1984.

- \* This includes the procurement of new highly-capable tactical missiles and torpedoes as well as artillery and tank ammunition.

- Increase Operations and Maintenance funds from \$66.3 million in FY 1983 to \$74 million in FY 1984 -- an increase of 12%. This would:

- \* Provide support for new equipment put into service in 1984.
  - \* Reduce real property maintenance backlogs.
  - \* Make possible improved unit and individual training.
- o Navy shipbuilding.
- The 1984-88 five-year shipbuilding plan includes 124 new ships, of which 119 are for conventional forces. (The remaining five ships are Trident strategic submarines.)
  - Specific conventional force ships included are:
- |                           | <u>1984</u> | <u>1984-88</u> |
|---------------------------|-------------|----------------|
| * Attack submarines       | 3           | 21             |
| * Cruisers                | 3           | 14             |
| * Amphibious ships        | 2           | 13             |
| * Escorts and auxiliaries | <u>8</u>    | <u>71</u>      |
| * TOTAL                   | 16          | 119            |
- o Mobility forces.
- Procure of four C-5B cargo aircraft and eight KC-10 cargo/tanker aircraft.
  - Convert four privately-owned aircraft in the Civil Reserve Air Fleet (CRAF) to permit them to carry military cargo in emergencies.
  - Further enhance U.S. ability to offload commercial ships where port facilities are not available.
- o Modernization of aircraft.
- Wherever efficient, the Administration is proposing multi-year procurements to reduce costs.
  - Air Force aircraft.
  - \* Increase the number of tactical aircraft to be procured from 1982 to 1984 by 50% above the insufficient levels proposed by the Carter Administration.

- \* Procure 48 F-15 and 120 F-16 Air Force fighter aircraft for FY 1984.

- Navy aircraft.

- \* Procure 24 F-14 and 84 F/A-18 fighter aircraft, and 32 AV-8B attack aircraft.

- \* Continue production of P-3 anti-submarine aircraft, A-6 attack aircraft, E-2C early warning aircraft, SH-60B and SH-2F anti-submarine helicopters, CH-53E heavy lift helicopters, and a variety of utility and training aircraft.

- Army aircraft.

- Continued procurement of the Army's AH-64 attack helicopter and the UH-60 utility helicopter.

- o Land forces.

- Major systems include the M-1 Abrams tank, the Bradley Fighting Vehicle, and the Sergeant York air defense gun.

- Produce the Pershing II long-range tactical ballistic missile.

### Justification.

- o Readiness.

- The plans of the previous administration were based on the assumption that any future armed conflict in which the U.S. was engaged would be of short duration.

- This assumption led to the procurement of spare parts and munitions at levels insufficient to provide for adequate training with sufficient reserves for actual wartime use.

- \* Additional funding will increase these stocks to adequate levels.

- \* Quality of munitions will be improved to offset potential adversaries' numerical advantages in some weapons, such as tanks.

- Additional Operations and Maintenance funding is required to provide adequate training and equipment operating performance and to support the large amount of new equipment entering the force.



- \* Maintenance of some new equipment is more expensive than that for the less-capable equipment that is being replaced.
- \* Additional unit and individual training is needed to enable U.S. forces to perform more effectively.
- \* Additional funds are also needed to permit maintenance and modernization that have been delayed from previous years because of insufficient funding.
- o Navy shipbuilding.
  - The United States must be able to maintain control over vital sea lanes for commerce and military resupply.
  - In wartime, more than 95% of U.S. military resupply will travel by sea.
  - While U.S. force levels were being reduced in 1970s, the Soviet Navy was being expanded.
    - \* The Soviet Navy has been transformed from a coastal defense force into an ocean-going force.
    - \* The Soviet Navy is now designed to perform tactical and strategic missions in waters distant from the Soviet Union.
  - In 1982 and 1983, the Reagan Administration initiated programs to rebuild the U.S. Navy into a 600-ship force by the end of the decade.
    - \* These programs would be continued in FY 1984 at a sufficient funding level to meet this goal.
    - \* Increased production of attack submarines would permit the U.S. to reinforce an area where it holds a significant technological advantage over the Soviet Union.
    - \* Amphibious ship production would increase U.S. capability to project defensive forces into remote potential trouble spots such as Southwest Asia.
    - \* Expanded production of other ships such as escorts, mine warfare ships, and auxiliaries, would improve U.S. ability to support existing forces.

o Mobility forces.

- Mobility is essential for the effective and timely deployment of combat forces.
  - \* These forces move personnel and materiel during an initial deployment, and provide sustaining combat support thereafter.
- Current U.S. mobility forces cannot move the required combat or combat support units fast enough to effectively counter military aggression in Europe, Korea, or in the Southwest Asia/Persian Gulf region.
- Elimination of shortages in oversized military cargo aircraft, fast logistics ships, prepositioned ships, and support equipment is essential to improve U.S. military capability during the first thirty days of a crisis.
  - \* The procurement of C-5 aircraft would permit the U.S. to airlift heavy, large combat equipment that will not fit in other types of existing aircraft.
  - \* The converted SL-7 fast logistics ships would be capable of rapidly transporting heavy, land-force combat equipment.
  - \* Prepositioning of equipment and supplies aboard ships in the Southwest Asia region will reduce the time required for deployment of heavy forces.

o Aircraft and land force.

- For the U.S., in concert with its allies, to maintain sufficient conventional forces to deter potential aggression, our forces must be provided with adequate numbers of new, modern equipment.
- In the last decade, the Soviets have produced vast amounts of new, highly-capable military equipment -- tanks, armed helicopters, combat aircraft, air combat missiles, and other sophisticated items.
  - \* The traditional U.S. qualitative edge in this field has been considerably narrowed, making Soviet quantitative gains more serious.
  - \* The Soviet military buildup has enhanced their ability to project force at far-distant points around the globe -- thus increasing the likelihood that they will rely on military rather than diplomatic means to promote their foreign policy goals.

- Previous administrations delayed necessary modernization, held production rates at inefficient levels, and procured insufficient quantities of critical wartime supplies.
  
- Continued acquisition of capable weapon systems such as the M-1 tank and the F-14, F-15, F-16, F/A-18, and AV-8B tactical aircraft and other advanced systems will enable U.S. forces to deter and, if necessary, counter Soviet aggression anywhere it might threaten U.S. or allied vital interests.
  
- \* Our armed forces' capability for fighting at night, in poor weather, and in all types of climates, would increase.
  
- \* Lighter weight anti-armor vehicles would improve U.S. ability to respond with speed to crises in remote areas.
  
- \* Procurement of more maintainable and reliable weapons such as the F/A-18 aircraft would achieve greater combat efficiency.
  
- \* Procurement of new advanced tactical command, control, and communications systems would enhance combat flexibility and force effectiveness.

Questions and Answers.

- o Why spend more? If lower readiness and procurement levels were acceptable to previous administrations at a time when the economy was stronger than it presently is, why must we have higher readiness and procurement levels now?
  - Recent Soviet aggression in Afghanistan and repression in Poland clearly demonstrates that the Soviets are willing to use their enhanced military capabilities.
  - In any future crisis or conflict, the U.S. will not have time to develop its own military abilities we will have to respond with what we have ready at the time.
  - More important, U.S. military readiness could eliminate the need to for a response by discouraging Soviet military adventurism in the first place.
  - The cost of not being sufficiently prepared could turn out to be far higher than the cost of military preparedness itself.
- o Cost overruns. Why does an Administration that says it is going to root out waste in government tolerate cost overruns on weapons systems?
  - When this Administration came into office, it discovered that many systems had been underpriced; responsible pricing will raise expected production costs somewhat.
  - At the same time, the Administration is taking steps to minimize cost overruns.
    - \* In the past, inflation has been a significant factor in the cost-overrun problem.
    - \* Because the Administration has reduced inflation by more than two-thirds, it has, concomitantly, lessened the potential for cost overruns in weapons systems.

The Administration's defense planners have made major efforts to produce military hardware more efficiently.
  - \* In 1981, the Defense Department established a cost-analysis improvement group to provide independent cost estimates for weapons acquisition.
  - \* The Administration also established the first Inspector General in the Defense Department, sworn into office on April 16, 1983.

- Some cost increases are inevitable in the development and production of any new mechanical system.
  - \* Because the system has not been produced in the past, its costs may be difficult to estimate with absolute precision.
  - \* Engineering changes that greatly enhance weapon quality are often discovered in the development process, and can therefore raise costs above initial estimates.
  - \* This problem occurs in all parts of the economy; it is no worse in military than in non-defense production.
- o Are our ships "sitting ducks?" Why should we be spending billions to increase the size of our Navy, when a ship can be sunk with one cheap missile?
  - U.S. ships typically cannot be sunk with one missile.
  - The U.S. Navy uses a concept of "defense in depth."
    - \* The actions of enemy airplanes, submarines, and surface ships that could launch missiles against U.S. ships are monitored by a variety of sensors to permit them to destroy the missiles before they can reach the ships.
    - \* Those enemy weapons that survive this outer barrier of missile-equipped aircraft and submarines must then face even greater defensive systems consisting of additional missile-equipped aircraft and advanced ships, such as the U.S.S. Ticonderoga, which was commissioned January 22.
      - The Ticonderoga, and ships of her class, will be equipped with the AEGIS system, which can intercept and destroy incoming enemy missiles.
    - \* If any enemy missiles should slip through that ring of defense, U.S. ships are equipped with high-speed guns that can destroy the missiles before they hit the ship.
  - Finally, U.S. ships are designed to be more resilient and U.S. Navy crews more highly trained in damage control than those of other navies.

## FOREIGN ECONOMIC AND FINANCIAL ASSISTANCE

### History.

Economic assistance became a major part of U.S. foreign policy in the aftermath of World War II. Its object was to contain the spread of international Communism by strengthening the economies of free world nations.

Assistance of this type may be said to date from the Marshall Plan, which was launched in 1947 to rebuild war-devastated Western Europe. During the 1950s and 1960s, the geographic focus of economic aid shifted from Europe to the developing nations of Asia, Latin America, and Africa.

The U.S. has supported the efforts of many countries to move from poverty to relative prosperity. More obvious successes in this area include South Korea, and Taiwan

### o The Program.

- Currently, more than 60 developing countries receive U.S. bilateral aid, while many more receive U.S. assistance through multilateral aid.
- Bilateral aid is rendered directly by the U.S. to the recipient country, principally through:
  - \* The Agency for International Development (AID), which makes loans and grants to countries in Asia, Africa, and Latin America, for projects aimed at improving food production, health, energy, and human resources development.
  - \* P.L. 480 food aid, through which concessional loans and humanitarian grants provide U.S. agricultural commodities to developing countries for humanitarian purposes and also to help develop export markets for American firms.
  - \* The Peace Corps, which places volunteers abroad to promote better understanding between peoples and assist in small-scale development activities.
  - \* Refugee assistance, which provides humanitarian aid to refugees in foreign countries, and finances transportation and initial placement of refugees coming to the United States.

- Multilateral assistance is provided through international organizations to which the United States belongs. There are two major channels for this kind of assistance:
  - \* Multilateral development banks, comprising the World Bank and its affiliates, and the regional banks for Asia, Africa, and Latin America.
    - These banks make loans at near-market terms and long-term low interest loans to finance development activities.
    - Industrialized countries support these banks with direct contributions and borrowing guarantees. The U.S. is the largest single contributor to the World Bank, providing about 20 percent of the bank's capital.
  - \* International organizations and programs, which make grants for development, and humanitarian and other activities.
    - The United States supports these efforts through voluntary contributions; i.e., through donations over and above the annual assessments this country pays as a member of various international organizations.
    - Examples include contributions to the United Nations Development Program, and the United Nations Children's Fund (UNICEF).
- o Costs.\*
  - Budget authority for economic and financial aid totaled \$2.7 billion in FY 1970, including:
    - \* \$1.9 billion for bilateral aid.
    - \* \$810 million for multilateral aid.

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\* Over the years, various foreign aid programs have been reported under different budget headings. For the purpose of comparison, all figures given above reflect the funding levels of all programs presently reported as bilateral and multilateral economic aid, even if certain programs were reported under different headings in earlier years.

-- Budget authority approximately doubled by FY 1980, totalling \$5.3 billion, including:

- \* \$2.7 billion for bilateral aid.
- \* \$2.6 billion for multilateral aid.

o Administration Action to Date.

-- For FY 1982:

\* President Carter requested total budget authority of \$6.7 billion, including:

- \$4.0 billion for bilateral aid.
- \$2.7 billion for multilateral aid.

\* President Reagan requested total budget authority of \$5.1 billion, including:

- \$3.4 billion for bilateral aid.
- \$1.7 billion for multilateral aid.

\* Congress approved a total budget authority of \$4.6 billion, including:

- \$3.1 billion for bilateral aid.
- \$1.5 billion for multilateral aid.

-- For FY 1983:

\* The Reagan Administration requested budget authority of \$4.7 billion, including:

- \$2.9 billion for bilateral aid.
- \$1.8 billion for multilateral aid.

\* Congress approved these amounts.

The President's Proposals for FY 1984.

o Increase total budget authority to \$4.9 billion, or 2% above the amount requested for FY 1983, including:

- \$3.1 billion for bilateral aid.
- \$1.8 billion for multilateral aid.

o Specific program changes:

- Increase budget levels for AID bilateral programs and multilateral banks.



- Reduce budget levels for refugee assistance programs and international organizations.
- Maintain budget levels at or near 1983 funding for P.L. 480, Peace Corps, and smaller aid programs.

Justification (General).

- o Create a new, more effective approach to foreign aid.
  - In the past, foreign aid programs have been wasteful and counterproductive.
    - \* Huge sums have been lost through official corruption or else squandered on costly "show" projects that have little to do with the recipient country's real economic needs and potential.
    - \* Worse yet, foreign aid has bred dependence by enabling recipient countries to avoid facing up to their economic problems.
  - In contrast to previous administrations, President Reagan's program emphasizes free market solutions to the problems of developing nations.
    - \* The President has urged these countries to adopt free trade and other policies designed to encourage foreign investment.
    - \* Under this Administration, American aid will be directed toward promoting self-help among the developing nations, rather than toward dependency or propping up failed socialist experiments, through these mechanisms:
      - Stimulating international trade by opening up markets, both within individual countries and between countries.
      - Tailoring particular development strategies to the specific needs and potential of individual countries and regions.
      - Guiding assistance toward the development of self-sustaining productive capacities, particularly in food and energy.
      - Improving in many of the countries the climate for private investment and the voluntary transfer of technology that comes with such investment.
      - Creating a political atmosphere in which practical solutions can move forward.

- The foreign aid programs will accomplish these goals with a budget only slightly higher than last year's.

Justification (Specific).

- o Increases are proposed only for those programs that have proved effective.

- AID bilateral assistance programs, where properly designed, can be used to encourage more beneficial more beneficial economic policies through:

- \* Expanding the role of the local private sector.
- \* Sharing appropriate U.S. technology and know-how.
- \* Creating indigenous institutions, such as banks and other lending authorities, that will foster economic growth.

- Multilateral banks.

- \* "Soft" loans (long-term, nominal interest) from the World Bank and regional development banks assist developing nations in building roads, bridges, dams, and other "infrastructure" projects that will support economic growth.

- o Reductions.

- Refugee assistance.

- \* The number of people who need refugee assistance is declining.

- International organizations.

- \* Those organizations presently supported by the U.S. are frequently less effective than other programs that address the same goals.

- o Maintain at or near current levels.

- The P.L. 480 program, by transferring surplus U.S. agricultural products, helps both to support American farmers' incomes, and to relieve hunger around the world.

- Current levels of support are adequate to fulfill this function.

Questions and Answers.

- o How much aid? Other industrialized nations -- Sweden, West Germany, Japan, and Great Britain among them -- devote higher percentages of their respective GNPs to foreign aid than the U.S. does. Shouldn't this country be doing more?
  - The U.S. is already providing significant amounts of direct aid.
  - But U.S. assistance to developing nations cannot be measured simply by the number of dollars devoted to "foreign aid."
  - \* The U.S. market is one of the most open in the world.
    - For developing countries, trade is more effective than aid in stimulating their economies.
    - U.S. trade with non-OPEC developing countries is twice their total aid from all other sources.
  - \* President Reagan's decision to deregulate oil prices was a major factor in reducing the price of oil worldwide.
    - The dramatic surge in oil prices during the 1970s was the principal reason for the great increase in the developing countries' external debt.
    - Lower oil prices will provide more help to developing nations than any expected amount of aid could provide.
  - \* U.S. defense expenditures support stability both globally and regionally.
    - Stability is essential for development.
    - Furthermore, many of those nations that contribute a higher respective share of their GNPs to foreign aid are able to do so because the U.S. shoulders the largest share of the free world's defense burden.
- o Free enterprise for everybody? But how will encouraging free enterprise policies help the Third World? President Reagan's approach to foreign aid sounds like a glib excuse for doing as little as we decently can.
  - Free enterprise works as well for the developing countries as it does the the developed countries.

- \* Hong Kong, for example, is a rock that doesn't even have its own water supply; yet it has prospered without massive infusions of foreign aid.
  - \* Singapore has succeeded on much the same terms.
  - \* Taiwan and Korea, two other success stories among the developing nations of Asia, were forced to adopt realistic economic policies by the impending withdrawal of American aid in the early 1960s.
- The U.S. is actually providing more aid in FY 1984 than during the previous year, but is making sure that the recipient countries adopt effective economic policies so that the aid has maximum beneficial effect.
- o Bank bailouts. Isn't the proposal that the U.S. contribute more to international lending institutions aimed more at helping those U.S. banks that have made large loans to developing countries than at helping those countries themselves?
- Loans to assist developing countries in meeting their financial obligations will be "hard" loans from the International Monetary Fund (IMF).
- \* In other words, these are short-term loans that must be repaid at near-market interest.
  - \* Those countries who borrow will have to adopt measures designed to put their financial houses in order so as to ensure repayment.
  - \* Commercial banks, both U.S. and others that are major lenders to developing countries, are being asked to increase their exposure to developing countries as part of the overall effort to restructure their economies without creating undue economic hardship.
- U.S. participation in the IMF is not really "foreign aid," but part of a joint effort to promote international financial stability -- something in which both developed and developing nations have a stake.
- \* Developed countries are spared the financial shocks that might occur through massive defaults on loans.
  - \* Developing countries benefit by being able to pay their bills, preserve their credit ratings, and receive help in putting their economic affairs in order.

\* If major banks benefit, the benefits are incidental  
to the achievement of these other objectives.

## INTERNATIONAL SECURITY ASSISTANCE

### History.

The United States undertook international security assistance on a major scale through Lend-Lease and successor programs before and during its involvement in World War II. Post-war assistance of this kind dates from President Truman's dispatch of military and economic aid to Greece and Turkey in 1947 when those countries were threatened with Soviet aggression.

Since then, security assistance has remained a vital instrument of American foreign and defense policy. The security assistance program enables the United States to sell defense articles and services to friendly governments to help meet their security needs, to participate in regional or collective security agreements, to take part in United Nations collective peacekeeping efforts, and to secure access to military bases overseas.

### o The Program.

-- Principal components of the international security assistance program include:

- \* Foreign Military Sales Credit (FMS), which provides for the sale of U.S. arms abroad through loans and guarantees by the U.S. government.
- \* Economic Support Fund (ESF), which provides low-interest loans and grants to selected countries of special political and security interest to the United States (Egypt and Israel are the major recipients).
- \* Military Assistance Program (MAP), which makes grants available to selected foreign nations to assist them in making purchases under the FMS program.
- \* International Military Education and Training (IMET) program, under which foreign military officers are given U.S. training.
- \* Peacekeeping operations (PKO), which finances multinational forces, such as those presently deployed in the Sinai Desert (as part of the Camp David accords), and in Cyprus (as part of the United Nations forces there).

-- Loan guarantees for weapons purchases under FMS account for roughly half of the total U.S. international security assistance program.

Costs.

- Budget authority for the International Security Assistance direct assistance program amounted to \$0.8 billion in FY 1970, and \$2.74 billion in FY 1980 and FY 1981.
- In FY 1981, International Security Assistance off-budget loan guarantees for totaled \$2.5 billion -- a one-hundred-fold increase over FY 1972.

o Administration Action to Date.-- For FY 1982:

- \* President Carter requested a total of \$5.6 billion:
  - \$3.4 billion in budget authority.
  - \$2.2 billion in loan guarantees.
- \* President Reagan requested a total of \$7.3 billion:
  - \$4.2 billion in budget authority.
  - \$3.1 billion in loan guarantees.
- \* Congress approved a total of \$7.2 billion:
  - \$4.1 billion in budget authority.
  - \$3.1 billion in loan guarantees.

-- For FY 1983:

- \* President Reagan requested a total of \$8.8 billion:
  - \$4.5 billion in budget authority.
  - \$4.3 billion in loan guarantees.
- \* Congress approved a total of \$7.8 billion in the Continuing Resolution:
  - \$4.2 billion in budget authority.
  - \$3.6 billion in loan guarantees.
- \* By supplemental appropriation, the total requested was later increased to \$8.8 billion:
  - \$4.6 billion in budget authority.
  - \$4.2 billion in loan guarantees.

- These amounts have not been acted upon yet.

**The President's Proposals for FY 1984.**

- o Provide a total of \$9.4 billion in total security assistance for FY 1984, an increase of 6.8% over last year.
  - Increase direct assistance to \$4.7 billion.
  - Increase loan guarantees to \$4.7 billion.

**Justification.**

- o Security assistance is necessary to:
  - Protect and preserve U.S. national security.
  - Aid the defense and development of friendly countries.
  - Enhance political and economic evolution of these countries away from Soviet influence toward more democratic values.
- o The President's security assistance program will specifically:
  - Promote peace in the Middle East and stability in the the Persian Gulf.
  - Deter Warsaw Pact aggression in Europe by strengthening friendly governments in Southern Europe and Southwest Asia.
  - Complement the President's Caribbean Basin Initiative by assisting the development and security of the Caribbean, Central, and South American countries.
  - Maintain U.S. political and defense commitments and economic ties to countries in the Far East.
  - Enhance stability in Southern and Central Africa, and continue to promote development and security in strategically vital countries in West and East Africa.



Questions and Answers.

- o Misplaced emphasis. At a time when we are being asked to reduce domestic spending, how can the Administration justify increasing aid to foreign countries -- especially when it is for military rather than humanitarian purposes?
  - The budget request acknowledges the need for fiscal restraint.
  - \* The Administration is not proposing to increase international security assistance for every friendly nation that is presently receiving it.
  - Where increases are proposed, they are to further critical U.S. interests -- such as to preserve stability in the Middle East, maintain access to Persian Gulf oil, and secure U.S. military bases abroad.
  - \* Major recipient countries under the FY 1984 budget include: Israel and Egypt (keys to Middle East peace, with aid being a continuation of commitments made as part of the Camp David peace process), the nations of Central America and the Caribbean (a part of the world through which most U.S. shipping must pass); Turkey (which hosts vital U.S. bases); Pakistan (critical to stability in Southwest Asia); Morocco (which provides a base essential to the defense of the Arabian peninsula); and Sudan (under serious threat of aggression from Libya).
  - Humanitarian assistance is most effective when conditions within the recipient country are stable. Military aid must sometimes serve as a complement to economic aid in order to promote such stability.
- o U.S. as arms merchant. Isn't it immoral to request more money for the U.S. to play arms merchant to the world?
  - Totally eliminating loans and loan guarantees for the the sale of arms would not stop these sales: not by the U.S. and certainly not by other nations.
  - \* On a dollar-value basis, the Soviets sell twice as much as does the U.S.
  - \* Even France sells more arms to the Third World than does the U.S.
  - Sales in which the U.S. Government offers financial assistance account for less than 25% of total U.S. arms sales.
  - \* If this assistance were discontinued, wealthy

nations would continue to buy arms while poorer nations -- who often have greater need for them -- could not.

\* The world would be less safe, not safer, in such an unbalanced situation.

-- Friendly countries in the developing world would be particularly threatened if the U.S. refused to provide them with arms while the Soviets armed either their neighbors or insurrectionary forces within their borders.

o U.S. aid and democracy. Isn't U.S. aid used to suppress efforts for democratic reform, especially in Latin America?

-- The U.S. provides support to Latin American governments to counter Marxist guerilla elements that seek to disrupt reformist democratic forces in that region.

-- We must recognize that these economic and political reforms take time.

-- Nevertheless, with each step in the process, the U.S. is making every effort to ensure that assistance enhances the prospects for continued reform.

o El Salvador. Is there any evidence that this policy is working? What progress, if any, is being made in El Salvador?

-- Free elections were held in El Salvador in March 1982, in which more than 85% of the eligible voters went to the polls. The government elected at that time has promised to hold further elections this December.

-- The Salvadoran government is carrying out a successful policy of land reform.

\* Half a million previously landless peasants and their families now own their land, instead of tenant-farming for large landowners.

\* The government is accelerating the program being engaged in: More than 20,000 new applications for titles have been filed since October 1982.

\* The Salvadoran army has been reinstating farm families that were illegally evicted by former landholders. Some 3,700 families have been reinstated since the March 1982 elections.

-- The Salvadoran authorities have arrested and charged soldiers suspected of murdering American citizens.

-- All this has been accomplished during a bitter civil war in which Communist-backed guerillas have terrorized the entire countryside.

## MILITARY MANPOWER

### History.

The United States has relied on volunteer military service for most of its history. The draft -- never popular, and often highly controversial -- was generally reserved for occasions when the U.S. was actually at war.

The peacetime draft, introduced in 1940, was allowed to expire in 1947 after the successful conclusion of World War II. Cold War tensions led to its reinstatement a year later, and the Korean conflict led Congress to vote extensions in 1950 and 1951.

Thereafter, the peacetime draft was renewed in 1959, 1963, and 1967. It remained in effect until President Nixon asked Congress to restore the All-Volunteer Force (AVF) in 1973.

### o The Program.

-- Congress authorizes the manpower levels for the Army, Navy, Marine Corps, and Air Force.

\* Benefits, such as financial aid for higher education, are provided to encourage enlistments.

\* Enlistment bonuses are used to encourage higher quality enlistees to sign up for longer tours of duty so that they can be given special training for technical positions; re-enlistment bonuses encourage individuals with needed skills to remain in the service.

-- Volunteers are required to pass the basic Armed Forces Qualification Test (AFQT) to ensure that they have the requisite intelligence skills for service in modern military.

### o Program changes.

-- The return to all-volunteer military service presumed that pay and benefits would be maintained at levels sufficient to attract and retain qualified personnel.

-- Unfortunately, pay and benefits did not keep pace with inflation during the 1970s, with the result that by the end of the decade, incomes for many service people had declined to the point where many career-minded persons could not afford to remain in the service without forcing their families to make severe sacrifices.

-- In FY 1981:

- \* The President proposed a 14.3% increase in basic pay and allowances to take effect at the start of FY 1982.
- \* The President also supported an 11.7% across-the-board increase in enlistment and re-enlistment bonuses to take effect during FY 1981.
- \* Both proposals were enacted into law by Congress.

-- Recruitment levels and quality of recruits rose rapidly as a result.

\* In FY 1981:

- For the first time since FY 1976, each of the four services met or exceeded its enlisted recruiting targets.
- The quality of recruits also rose -- 81% of recruits for that year had high school diplomas, as opposed to 68% for FY 1980.
- Even the Army, which has historically had the most difficult time attracting qualified individuals, recruited 80% high school graduates.

\* In FY 1982:

- Recruitment levels and quality exceeded that of the prior fiscal year and were in fact the best since the inception of the AVF in 1973.
- 86% of new recruits had high school diplomas.
- In addition, the number of recruits who scored average or above on the AFQT increased from 82% in FY 1981 to 87% in FY 1982.

-- Re-enlistment levels rose correspondingly.

\* In FY 1981:

- First-term re-enlistment in FY 1981 climbed to an all-time high of 43%.
- Re-enlistment among career personnel increased to 77% compared to 71% in FY 1980.

\* In FY 1982:

- First-term re-enlistment rose to 52%.

-- During that same period, Congress reduced the funds available for re-enlistment bonuses.

\* In FY 1972, Congress authorized \$300 million for re-enlistment bonuses.

\* By FY 1978, that amount had been cut to about \$200 million -- a reduction of one-third. (Greater, in fact, when the decline in purchasing power caused by inflation is taken into account.)

\* These reductions were not offset by the subsequent, belated increases to \$308 million in FY 1979 and \$390 million in FY 1980.

-- As a result, the armed services found it increasingly difficult to recruit and retain qualified personnel.

\* By FY 1980, only 54% of new Army recruits had high school diplomas.

\* Many highly-trained technicians, pilots, and other military careerists were leaving to take better-paying jobs in the private sector because they could not provide for their families on their shrunken service pay.

#### o Costs.

-- The share of the Defense Department budget devoted to personnel costs (including retired pay) has declined every year since 1975 -- from nearly 60% in FY 1975 to an estimated 46% of planned FY 1983 outlays.

\* This figure compares favorably with the manpower costs in labor-intensive industries, which run about 48% of expenditures.

-- FY 1980 outlays for military personnel amounted to \$30.8 billion.

\* In constant 1983 dollars, this meant that the U.S. was spending \$44 billion in FY 1980, as compared with \$58.2 billion in FY 1964.

\* The decline is partly explained by the fact that there were about half a million more men and women in the armed services in 1964 than in 1980.

#### o Administration Action to Date.

-- President Reagan, a strong supporter of the AVF, moved quickly to raise military pay and benefits to more appropriate levels.

- Re-enlistment among careerists increased to 82%.
- Outlays for military personnel rose to:
  - \* \$36.4 billion in FY 1981.
  - \* \$42.3 billion in FY 1982.
- Salary increases for military personnel were limited to 4% in FY 1983 by the First Concurrent Resolution on the Budget.

### The President's Proposals for FY 1984.

#### o Personnel levels.

- Increase active duty strength by 38,000 in FY 1984 over FY 1983.

	<u>1982</u>	<u>1983</u>	<u>1984</u>
* Army	780,000	780,000	783,000
* Navy	553,000	560,000	572,000
* Marine Corps	193,000	195,000	197,000
* Air Force	<u>583,000</u>	<u>592,000</u>	<u>613,000</u>
- Total	2,109,000	2,127,000	2,165,000

#### o Military pay.

- Freeze military pay for FY 1984.

### Justification.

#### o Higher personnel levels.

- The proposed levels represent a continuation of the Administration's efforts to bolster combat readiness.
- Additional forces will permit:
  - \* Manning of new ships, submarines, aircraft, and other weapon systems that enter the force in 1984.
  - \* Improvements in training, logistics, and intelligence activities.
  - \* Force modernization in the Army and Marine Corps.

o Military pay freeze.

- A military pay freeze is consistent with government-wide action being proposed for other pay raises and automatic cost-of-living increases.
- Military personnel received major pay increases in FY 1980 and FY 1981 that exceeded federal civilian and private sector pay raises.

\* Pay raises:

	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>	<u>FY 1984</u>
- Military	11.7%	14.3%	4.0%	0%
- Federal Civilian	9.1	4.8	4.0	0
- Private Sector	9.1	9.5	9.5	6.5

- In addition, the more than two-thirds reduction in the inflation rate over the last two years reduces the need for a military pay raise in FY 1984.



Questions and Answers.

- o Personnel levels. Why not hold manpower in 1984 to the 1983 level and avoid the cost increases that accompany higher personnel levels?
  - Almost all of the manpower increases in 1984 are necessary to support manning of new ships, aircraft, and other weapons systems and to achieve higher levels of combat readiness.
  - If strength were held to the 1983 level, there would be a degradation in readiness in both existing and newly deployed units.
- o Military pay freeze. What impact will the military pay freeze have on military recruitment and retention?
  - The one-year pay freeze will have only a modest near-term effect on recruiting and retention.
    - \* The number of experienced career enlisted personnel is expected to grow by 5%-10% between 1982 and 1984 even with the freeze.
    - \* 1984 recruit quality should roughly equal that achieved in 1982, the best recruiting year in the history of the AVF.
  - The budget includes a contingency fund for additional pay and benefit increases beyond 1984 if such measures are necessary to ensure that critical manpower requirements are met.

## STRATEGIC FORCES

### History.

The United States emerged from World War II as the only nation possessing nuclear weapons. At that time, our government solemnly pledged that we would use this awesome power not for purposes of conquest or coercion, but for detering attacks on ourselves and on our allies.

Every succeeding American government has renewed this pledge. Unfortunately, not every nation that has since developed nuclear capability shares our commitment. In today's world, the prospect of an unprovoked nuclear attack or nuclear blackmail by a hostile state is very real. This country's strategic forces must be strong enough to meet this challenge if nuclear war -- or the threat of it -- is to be avoided.

### o The Program.

-- U.S. strategic forces are based on what is commonly referred to as the "Triad," which consists of:

- \* Land-based intercontinental ballistic missiles (ICBMs).
- \* Submarine-launched ballistic missiles (SLBMs).
- \* Manned bombers.

-- The other components of the program include:

- \* Warning, surveillance, and communications systems that alert us in the event a nuclear strike is launched.
- \* Interceptor aircraft to counter manned bombers.
- \* Research and development, essential to securing needed technological advances in strategic systems.

### o Costs.

-- Strategic forces (exclusive of research and development), averaged 10.3% of the total defense budget between 1962 and 1981.

- \* In 1962, the share was 21.9%.
- \* In 1965, the share was 12.5%.
- \* In 1970, the share was 9.1%.
- \* In 1975, the share was 8.2%.
- \* In 1979, the share was 6.7% -- the twenty-year low point.

- The share can be expected to fluctuate for the obvious reason that it costs less money to maintain a system than to replace an obsolete system with a new one.
- \* Weapons, like any other mechanical devices, have effective life spans.
- \* They wear out, become obsolete, or otherwise have to be replaced.
- This is the case with the systems of the strategic Triad, many of which are twenty years old or older.
- For the future, the U.S. will have to pay more to modernize the three legs of the Triad.

o Administration Action to Date.

- Despite higher requests at the end of the Carter Administration, spending on strategic forces was still not high enough to compensate for the neglect of earlier years.
- Furthermore, President Carter had delayed modernizing the manned bomber leg of the Triad by cancelling production of the new B-1 bomber.
- Accordingly, on October 2, 1981, President Reagan announced a comprehensive program to modernize U.S. strategic defense forces.
- The President's program consists of five elements:
  - \* Deployment of the new, larger, and more accurate MX ("Peacekeeper") missiles, to upgrade the land-based leg of the Triad.
  - \* Development and deployment of a new SLBM (which will be more accurate and carry a bigger payload than existing missiles), and the early deployment of cruise missiles on attack submarines.
  - \* Deployment of a new bomber (the B-1B) to replace the aging B-52, and the development of an advanced technology (Stealth) bomber for the 1990s.
  - \* Improvements in warning and communications systems, including improvements in radar and satellites that warn of nuclear attacks.

- \* Improvements in strategic defenses, including air defense interceptors, development of an anti-satellite system, and increases in civil defense programs.

-- For FY 1982:

- \* President Carter requested \$15 billion for strategic forces.
- \* President Reagan requested \$17.4 billion.
- \* Congress approved \$15.3 billion.

-- For FY 1983:

- \* President Reagan requested \$23.1 billion.
- \* Congress approved \$20.6 billion.
- \* The difference between the two figures largely reflects Congressional denial of funding for the "closely spaced basing" method of deploying the Peacekeeper missile.

The President's Proposals for FY 1984.

- o The President's FY 1984 budget includes \$28.2 billion for the continued modernization of strategic forces, a \$7.6 billion increase over 1983.

o Provisions include:

-- Modernization of ICBM forces with the Peacekeeper missile. Specifically:

- \* Continued development and flight testing of the missile.
- \* Procurement of 27 missiles.
- \* Construction of technical facilities.

-- Submarine-launched missile programs.

- \* Continued production and deployment of the Trident submarine and Trident I missile.
- \* Development of the new Trident II missile, with improved accuracy, range, and payload.

-- Manned bombers.

- \* Continued production of the B-1B bomber and development of the Advanced Technology Bomber.

\* The President's Commission on Strategic Forces.

- In response to Congressional concerns, the President appointed a bipartisan commission to review U.S. strategic modernization options.
- The Commission recently recommended continuation of the President's strategic initiatives, including proceeding with procurement of the Peacekeeper missile.
- The Commission, however, recommended basing 100 of these missiles in existing Minuteman silos and pursuing research and development on a possible small, single warhead missile, superhardening of missile silos, and ballistic missile defense.

Justification.

o The Soviet threat:

- The Soviet drive for nuclear superiority and their deployment of more effective forces threatens the nuclear balance and has weakened U.S. retaliatory capabilities by:

\* Increasing the vulnerability of U.S. ICBMs.

- The Soviets have not only installed multiple warheads on their missiles, but have greatly improved their accuracy, thus bettering their chances of eliminating U.S. land-based missiles in a first strike.

\* Decreasing the penetration capability of U.S. bombers.

- Modernized Soviet air defenses have reduced the effectiveness of the B-52 bomber.

\* Threatening the survivability of U.S. command, control, and warning systems.

-- Elements of the Soviet advantage.

\* The Soviet Union now has:

- More ICBMs than the U.S. (1,398 vs. 1,049).
- More SLBMs than the U.S. (950 vs. 544).

\* The U.S. lead in warheads is narrowing.

- The Soviets are also expected to begin deployment of a new bomber.

- U.S. defense forces need to be modernized to meet this threat.
- \* For instance, many of our strategic weapons are older than the crews that man them.
  - The last B-52 bomber was built in 1962 -- the same year the Minuteman and Titan II ICBMs were deployed.
  - The new Trident submarine -- the first of which was launched last year -- is our first completely new strategic system in twenty years.
- \* These problems will only grow worse if left uncorrected.
- o The Reagan Administration's response.
  - The Administration's strategic program will reverse the unfavorable trends in the strategic balance favoring the Soviet Union, and counter recent Soviet advances in missiles, submarines, and bombers.
- o Defense and arms control.
  - The modernization program provides an indispensible foundation for progress in the Strategic Arms Reduction Talks (START) and other arms control efforts by enabling the U.S. to negotiate from a position of strength.
  - Only in such a situation will the Soviets have any incentive to negotiate in good faith.

Questions and Answers.

- Spending on nuclear weapons. Can the U.S. afford an unprecedented spending program on nuclear weapons?
  - We must be able to afford to pay whatever is necessary to protect national security.
  - Nonetheless the President's strategic spending program is not unprecedented.
    - \* Exclusive of research and development, the President is proposing to devote 10.3% of the defense budget to strategic forces in FY 1984.
    - \* This is the same share of the budget devoted, on average, to strategic forces over the period 1962 to 1981.
- Arms control. Won't progress in arms control negotiations result in savings in the strategic budget?
  - The Administration is attempting to negotiate equitable and verifiable reductions in nuclear armaments.
  - Negotiations toward this end may or may not succeed; much depends on how willing the Soviets are to engage in meaningful arms negotiations.
  - No matter how successful arms control negotiations may be, however, we still need to modernize our aging strategic systems.
- M-X Basing. Won't the Peacekeeper missile be vulnerable to Soviet attack if it is deployed in existing silos?
  - The vulnerability of any single element of the strategic Triad of missiles, bombers, and missile-firing submarines is not the key factor in preserving U.S. deterrence credibility.
  - The modernization of the entire Triad, in association with survivability improvements yet to follow, will ensure U.S. deterrence capabilities into the future.
- Is the B-1 an Edsel? Won't the B-1 bomber be obsolete by the time it is deployed? Shouldn't we go straight to the "Stealth" bomber?
  - There are three reasons why we should proceed with the B-1B:
    - \* The current manned bomber leg of our Triad, the B-52, is aging and needs modernization now.
    - \* The B-1B is in production right now.

- \* The B-1B will be able to penetrate Soviet defenses into the 1990s.
- If we are to maintain our strategic Triad, we need the B-1B.
- o Soviet response. Won't an increase in U.S. spending on nuclear weapons provoke the Soviets to do the same?
  - During the last decade, the Soviet Union embarked on the greatest nuclear arms build-up in history without any provocation whatsoever from the U.S.
  - \* U.S. spending on nuclear arms declined during that period in real terms.
  - \* The U.S. vigorously pursued detente and friendlier relations with the Soviet Union.
  - Far from accelerating the arms race, a demonstration that we are willing to pay what it costs to defend ourselves would convince the Soviets that they have nothing to gain by trying to achieve nuclear superiority over the U.S.