WHAT WOULD BE THE OUTCOME?

	1993	1994	1995	1996	1997	Total
OMB Baseline Deficit	327.3	309.1	307.1	324.4	384.1	N.A.
Additional Cost of Investments	0.0	5.9	13.1	20.5	27.8	67.3
Associated Debt Service Cost	0.0	0.2	0.8	2.0	3.8	6.9
Deficit After Investments	327.3	315.2	321.0	346.9	415.7	N.A.
Target Policy Savings	0.0	-50.2	-104.2	-161.0	-220.4	-535.9
Target Debt Service Savings	0.0	-1.6	-6.9	-16.4	-30.5	-55.5
Defense Discretionary Savings	0.0	-10.6	-24.2	-38.7	-51.6	-125.1
Nondefense Discretionary Savings	0.0	-11.1	-21.1	-28.3	-33.5	-94.0
Entitlement Savings	0.0	-27.7	-52.8	-59.6	-66.9	-206.9
Revenue Increases	0.0	-15.9	-32.1	-47.3	-63.6	-158.8
Total Policy Deficit Reduction	0.0	-65.3	-130.2	-173.8	-215.6	-584.9
Associated Debt Service Savings	0.0	-2.1	-8.8	-19.7	-34.3	-64.9
Resulting Deficit	327.3	247.8	182.0	153.5	165.8	N.A.

The budget program described above would finance the investment package and achieve the deficit target.

The budget savings from many spending cuts grow more slowly than the overall savings targets. Therefore, it might be necessary to phase the cuts in more slowly than depicted above. However, that would reduce the assumed debt service savings, and might require that more cuts be put in place by FY 1997 to continue to achieve the deficit reduction goal.

MEMORANDUM

TO: Letitia Chambers, Craig Bury

FROM: Bob Greenstein

RE: Option for Administrative Block Grant

The proposal to combine federal support for state administrative expenses in operating Medicaid, food stamps, and AFDC into a block grant and cut this support over time is one I've studied for a number of years. The proposal was offered by the Reagan and Bush Administrations.

I am concerned about the problems this proposal could cause for these programs, their beneficiaries, and state governments. This analysis examines the proposal and discusses these concerns. The matters discussed here are the principal reasons this proposal has been dismissed on a bipartisan basis.

SINGLE WELFARE ADMINISTRATIVE GRANT

This option is identical to one repeatedly proposed by the Reagan and Bush Administrations and repeatedly rejected on a bipartisan basis. In the 1990 summit negotiations, it was termed unacceptable by Democratic negotiators. In 1985, a variant of this proposal was criticized during a food stamp mark-up by Jesse Helms, an ardent supporters of cutting welfare programs deeply, as making little sense.* The option has continuously been rejected on substantive rather than political grounds. (It should also be noted that organizations ranging from the National Governors Association to the Children's Defense Fund are staunchly opposed to it.)

The proposal has several fundamental flaws:

- It would shift substantial costs from the federal to the state governments at a time when states are already struggling under burgeoning welfare costs, some of them a result of federal mandates to greatly expand Medicaid coverage. The result would be to exacerbate Medicaid funding crises, which are already severe in many states.

  This problem would *not* be substantially alleviated through cost savings resulting from administrative simplification, as any such savings would be modest. Under OMB management circulars, federal rules governing what are and are not allowable administrative costs are already similar for these programs.

- The proposal essentially limits the federal funds each state would receive to help defray its administrative costs in operating AFDC, food stamps, and Medicaid to somewhat less than the amount it is currently receiving, adjusted only for inflation. This would prove damaging to states experiencing substantial caseload growth in the future. Caseloads could grow due to economic downturns in a state, population growth, increases in birth rates, or the aging of the population. In addition, federal mandates require all states to extend Medicaid over the coming decade to all children through age 18 with incomes below 100 percent of the poverty line. This will cause substantial caseload growth in most states, with the largest growth among poor states that now have the most restrictive Medicaid eligibility criteria, such as those in the South. States would essentially have to pay themselves for 100 percent of the administrative costs resulting from the caseload growth caused by the

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*Helms initially supported the proposal, but after hearing a discussion of its weaknesses during the mark-up, concluded — as did all other Senators present — that it was deeply flawed.

added Medicaid mandates. When the Medicaid mandates were enacted and imposed on states, there was no thought that the federal share of the administrative funds needed to help serve these additional children would subsequently be withdrawn.

- The proposal would pose equity problems. As just noted, states experiencing substantial caseload growth for reasons beyond their control would effectively have to bear 100 percent of the added administrative costs (as well as a substantial share of the added benefit costs). But at the same time, states whose caseloads might shrink due to strong economic growth and/or population decline could get a windfall.

- Since states would lose federal funds for administration at the same time their caseloads and benefit costs were growing, state cutbacks in benefits and services for the poor children and families served by these programs would be virtually inevitable in many areas.

Each of these points is discussed below. An alternative savings option is also discussed; the alternative option saves far less. With Medicaid and welfare programs in crisis in many states and the federal mandates that raise state costs phasing in year-by-year, savings that can responsibly be achieved in this area are limited.

The Proposal: How it Differs from Current Law

Under current law, basic state administrative costs in operating the food stamp, AFDC, and Medicaid programs are supported on a 50-50 matching basis by the federal government. The federal matching rate is set at a higher percentage for several specialized costs — primarily the costs of fraud investigations and prosecutions, computer systems that satisfy federal standards for improving program management and reducing errors and overpayments, Medicaid automated claims processing, and Medicaid reviews of medical and health care use that are designed to control Medicaid costs.

The proposal would replace the federal matching funds now provided for these state administrative costs with a block grant. Under the block grant, each state would receive a single administrative grant for FY 1994 equal to the total amount the state is projected to receive in FY 1994 under current law, except that the amounts states currently receive under the higher matching rates would *not* be figured into the block grant amounts. Stated another way, each state would receive a grant amount for FY 1994 equal to the amount the federal government projects the state would receive if *all* administrative costs in these three programs were funded on a 50-50 basis and no higher matching rates were in use.

The central element of the proposal, however, is what happens *after* FY 1994. In each subsequent year, a state would receive the same administrative grant amount it received in the prior year, adjusted only for inflation (using the GNP deflator). The state administrative grants would thus remain the same from year to year in inflation-adjusted terms — regardless of whether a state's caseloads rose or fell, its economy entered a recession and caused more people to become eligible for the programs, the state's population grew, or the federal government imposed new requirements that increased state administrative costs.

This would mean that all increases in costs above an inflation adjustment *would be borne 100 percent by the state, rather than on the current 50-50 matching basis.*

The proposal represents a major cost shift from the federal government to state and local governments. The proposal would reduce federal costs (and thus increase state and local costs) by an estimated $500 million in FY 1994, rising to $2.05 billion a year by FY 1998. Over the five-year period, a cost shift of $6.15 billion is involved.

Analysis of the Proposal

The proposal represents a radical change in the administrative funding formulas, abolishing the current matching rate formulas that have been in use in these programs for several decades. The proposal poses three serious issues.

1. *Reduction in support*

The proposal sharply reduces federal support over time. States would have to assume an increasing share of the administrative cost burdens in these programs, even though the costs are driven in significant part by federal rules. The problems would be greatest for states whose caseloads increase because of an economic downturn, population growth, or federal Medicaid mandates, and for states that must incur major expenses for new computer systems.

The problem would be most severe for states later experiencing slow growth or recession. During such periods, caseloads rise — and administrative costs increase along with them. Under the proposal, states would have to pay for *all* of these increased administrative costs. Yet in a recession, state revenue collections decline. Thus, a state would be forced to shoulder an increased share of the administrative costs of running these basic safety net programs at the very time the state was experiencing fiscal difficulty itself.

Adding to this problem, Medicaid rolls in most states are expected to increase substantially in coming years due to federal Medicaid mandates, population growth, and the aging of the population. With the federal contribution to state administrative costs being adjusted only for inflation, states would essentially have to bear all of the additional administrative costs themselves and do so at the same time they are also bearing part of the increased benefit and service costs.

2. *Misallocation of funds among states*

The proposal would create inequities among states and result in misallocation of funds. States having unusually large administrative expenses in FY 1994 — the year on which the new state grant amounts would be calculated — would get a permanently enlarged share of the federal block grant funds. (A state could have unusually large expenses in the base year because it had made a major investment in a new computer system that year.) On the other hand, states that are planning to undertake major projects needed to improve program management but have not yet instituted them (e.g., projects to install a new computer system, overhaul Medicaid claims processing procedures, or hire more fraud investigators) could find their administrative funding grants stuck permanently at unrealistically low levels.

This could inhibit such states from taking actions that are needed to improve program administration. As noted, any additional costs for management improvements — including improvements designed to reduce error rates — would be borne 100 percent by the state, even though at least half of the benefit savings from error reduction would accrue to the federal Treasury.

The proposal creates further inequities because of its failure to reflect economic or demographic changes as they occur. States experiencing a recession and a consequent increase in caseloads would receive no federal cost-sharing to help meet the increased load, while states whose economies improved markedly and whose caseloads declined after the base year could receive a windfall. Similarly, states with rapidly growing populations would not receive any additional administrative funds to meet their increased needs, while states with declining populations would receive more than their fair share of administrative funds. The states most heavily affected by the federal Medicaid mandates would be likely to suffer most.

3. *Adverse Impacts on Poor Families and Children*

Among the likely losers under this proposal would be poor children and their families. They would be likely to lose in several ways.

First, with such large amounts of federal administrative funds being withdrawn, services to clients would almost certainly be affected in many states. Destitute families might find they had to wait longer to have their applications processed and begin receiving benefits, even if they were in severe need. Indeed, many states are so tightly squeezed under *current* law that they are already in violation of federal standards to process applications for benefits within reasonable timeframes. In the food stamp program alone, five states are now under court order to comply with federal standards, with lawsuits pending against nine others.

In addition, states would likely cut back other services or benefits. One likely target would be welfare employment and training programs designed to move welfare recipients to self-sufficiency. Efforts to move AFDC recipients to work represent a major Clinton theme. Unless massive infusions of new federal welfare employment funds are provided to states *with no matching requirement*, the proposal for an administrative block grant could undermine the Clinton welfare reform in a number of states because states could fail to provide the needed matching funds — and fail to implement the Clinton reforms in more than a token fashion or in more than part of the state. The bottom line is that most states would have to find funds somewhere in their welfare budgets to offset the loss of federal administrative monies.

One of the most likely sources for such funds would be basic welfare grants themselves. It is likely that adoption of the proposal would lead many states to offset some of the loss in federal support by allowing AFDC benefit levels to fall even further behind inflation than would otherwise be the case.

In the median state, the AFDC benefit level paid to a family of four with no other income has already declined 43 percent since 1970, in inflation-adjusted terms. AFDC benefits have fallen so much that the average AFDC and food stamp benefit *combined* for a family with no other income is now back to the level of AFDC benefits *alone* in 1960, before the food stamp program was created. This is one of the principal reasons that poverty rates among children climbed so much during this period. Further erosion in AFDC grant levels would exacerbate this problem and push substantial numbers of poor children deeper into poverty.

Alternative Savings Proposal

A modest alternative proposal would be to scale back, over a five-year period, the enhanced federal matching rate that applies to certain forms of computer costs in the food stamp program. (Such a proposal might be appropriate for AFDC as well, but I don't know enough about computer needs in AFDC to evaluate that. It would not be wise to extend it to Medicaid where it would further aggravate state Medicaid funding crises at the very time federal Medicaid mandates are phasing in.) The federal government now pays 75 percent of a state's costs in developing new computer systems for food stamp operations. This rate could be dropped five percentage points per year for five years until it reached the regular matching rate of 50 percent. A GAO report issued in 1990 argues that a higher matching rate for food stamp computerization is no longer needed since most states have already computerized or are in the process of doing so. The five-year phase-in period would prod states to complete this process expeditiously.

There are, however, arguments against this option. The GAO recommendation was based on a narrow reading of one sentence in a Committee report from the late 1970s, which the GAO interpreted as meaning that the 75 percent funding was to be provided on a temporary basis until states had achieved a basic level of computerization, and then withdrawn. Other parts of the same Committee report lean in the opposite direction. Moreover, Congress has made clear it does not subscribe to the GAO interpretation, rejecting the food stamp option discussed here when it was proposed several years ago by Jesse Helms.

Ultimately, a policy decision on this question should be based not on an interpretation of a 15-year old Committee report, but on the merits. The argument for the option is that a certain degree of computerization has been achieved and that 75 percent funding thus is no longer needed. The argument against the option is that computerization is not a one-shot deal and that improvements in automation are constantly being developed that can streamline operations further and reduce errors and overpayments. Those holding this view maintain that some states would be less likely to invest in computer upgrading if the state cost in doing so were doubled, as would occur under this option, and that less investment in computerization would mean foregone opportunities to reduce overpayment rates in a program where 100 percent of the benefit costs are borne by the federal government.

As noted above, the same option could be examined for AFDC. One effect of extending this to AFDC, however, could be state action to recoup the lost funds by reducing AFDC grants to poor families and their children. This approach would be most troublesome in Medicaid, since most states are already struggling with Medicaid funding crises, which have been intensified by federal Medicaid mandates that require states to cover more poor pregnant women, children, and elderly people.

CUTTING LOW INCOME ENERGY ASSISTANCE

This proposal would cut the low-income energy assistance program, reducing benefits $180 million a year by FY 1998. The rationale is that real energy prices are lower now than in the late 1970s when the program was created, and hence current funding levels are not needed.

This same rationale, however, has already been used to cut the program deeply. Funding for the low-income energy assistance program has been slashed 55 percent in real dollars since FY 1981, when Ronald Reagan took office. The decline in funding levels ~~dwarfs~~ exceeds the decline in energy costs.

Moreover, according to Carter Administration analyses, the FY 1981 level was itself too low to compensate for the sharp increases in the energy costs of poor households in the late 1970s and the early 1980s, following oil price decontrol and other factors that pushed up energy prices at that time. After extensive study, the Carter Administration estimated that $2.6 billion per year would be needed for the program and initially planned to request that amount for FY 1991. When the deficit rose and the Carter Administration placed more emphasis on deficit-cutting, the funding level sought for this program was scaled back somewhat. Then after Reagan took office, even this reduced funding level was cut. The funding level for FY 1993 is *68 percent lower*, after adjusting for inflation, than the $2.6 billion funding level initially selected by the Carter Administration.

Data from HUD, HHS, and the Energy Department strongly indicate that the need for low-income energy assistance remains strong — and that further cuts in the program would further impoverish many of the poorest households.

- Nearly 60 percent of recipient households have incomes below $6,000.

- Under standards established by the Reagan Administration, rental housing is considered affordable for low-income households if rent and utility costs do not consume more than 30 percent of income. But Census data for 1989 — the latest data available — show that even before the recession hit, 56 percent of all poor renters in the U.S. were paying more than *half* of their income for rent and utilities. According to HUD, nearly five million low-income households are considered to have "worst case housing needs" because they pay more than half of their income for rent and utilities.

- The number of poor households has burgeoned in recent years. The number of poor was higher in 1991 than in any year since 1964. While the number of poor people has been rising, low-income energy assistance has been cut back. Hence, the percentage decline in program funding *per poor person*, after adjusting for inflation, is even larger than the percentage declines in funding levels noted above.

- Census data show not only that the number of poor people has grown, but also that the poor have, on average, become poorer. This is partly due to a 43 percent decline since 1970 in the purchasing power of AFDC benefits in the median state, as well as to eroding wages. A further cut in energy assistance would compound the effect of these other benefit reductions and wage losses.

- The program is not an entitlement and meets only a small portion of the need. The program serves fewer than one of every four eligible households. About 20 million households that have incomes low enough to qualify do not receive benefits because funding is so constrained. The proportion of eligible households served by the program has been reduced substantially in recent years due to funding cuts. Average benefits per household have also been cut. Just between FY 1985 and FY 1990, the average benefit was reduced 13 percent.

This proposal would thus cause hardship for several million poor families with children and poor elderly and disabled people. It would compound the effects of wage and job losses and cuts in other assistance programs that these households have borne. It would effectively push them deeper into poverty by reducing their ability to pay for basic necessities such as heat.

The proposal becomes more ominous in light of a new study released in September 1992 by Boston City Hospital. The three-year study found that of poor children who visited the hospital emergency room, the proportion who were underweight rose sharply following the coldest month of the winter, as their families cut back on food consumption to pay the heating bills.

The researchers studied 11,000 medically indigent, predominantly minority children aged six months to two years. They found that nearly 28 percent of them had been threatened with a utility shut-off and nearly 20 percent had experienced at least one day with no heat during winter months. Children whose parents had endured a shut-off or threat of shut-off were found to be twice as likely to be classified as hungry or at risk of being hungry. Only one-sixth of the group reported receiving energy assistance during the winter. The study director noted: "we refer to this phenomenon as the heat or eat effect." Cutting the energy assistance program is likely to aggravate this problem.

One last point: the write-up reflects the Bush Administration argument (noted in the CBO book) that about half the states transferred from one to 10 percent of their energy assistance funds to other programs in FY 1990 and that this indicates the program receives excess funds. But this fact does *not* really reflect overfunding of the program. The funds were transferred primarily to other programs that also have been cut and are also falling well short of need, such as the Social Services Block Grant, which has been cut nearly in half since FY 1981. The Social Services Block Grant has powerful lobbies of service providers at the state level, while the energy assistance program does not have a comparable lobby (largely because its funds go principally to poor families, not to service providers). The fund transfer reflects this reality more than anything else. Furthermore, the energy assistance program has been cut *more than 10 percent* since 1990, anyway.

MANDATORY SPENDING

Function 270

1. The NRECA is a very powerful lobby; proposing to end REA appropriations is likely to be a losing battle. Also, it isn't wise to have a full-scale war with this lobby at the same time one is going after much bigger savings from price supports, crop insurance, and FmHA. I suggest taking half the REA savings, through reinstatement of the REA general funds policy and establishing a system to set priorities for REA loans.

Function 350

1. It appears there may be a double-counting of dairy savings. The dairy program is proposed for elimination, but these savings are also taken from increasing the dairy assessment. Would there be an assessment if the program no longer existed?

In any event, with the chairman of the Senate Ag. Committee being a leading dairy proponent, and the leading Republican dairy supporter — Senator Jeffords — being one of the key Republicans whose support the Administration will need on the Senate floor to pass its budget, the proposal does not appear politically realistic. Some savings can be sought in the dairy program but they should be of the same dimension as the savings sought in other major commodity programs. Dairy should not be singled out for a bigger hit.

Based on discussion with members of the USDA transition team, I suggest that the principal savings in the agriculture area come from raising by 10 percent the farm acreage ineligible for deficiency payments, starting in FY 1995. (Passage of legislation containing such changes is not likely to come early enough in 1993 to take effect in FY 1994 without causing some disruption. Starting the reduction in FY 1995 gives farm operators time to prepare for it.) A reduction of similar magnitude can then be proposed in the dairy program.

The proposal to replace the crop insurance program with disaster assistance is problematic and is unlikely to generate the savings estimated. CBO unrealistically assumed that disaster assistance would be limited by formula. In fact, history shows that when growers do not have crop insurance, the pressures to provide disaster assistance on an *ad hoc* basis become overwhelming, dissipating the savings from elimination of crop insurance. An alternative would be to require beneficiaries of USDA crop programs such as price supports to take out crop insurance, thereby reducing adverse selection in the insurance program.

2. On the merits, the Export Enhancement Program should be killed. President-elect Clinton voiced strong support for it, however, during the campaign. Cutting the market promotion program in half, which is also proposed in the document, is likely to be the most the Administration will be willing to propose here.

Function 500

I did not take the proposal to limit federal matching payments to states for costs in operating their foster care programs. Foster care costs are rising rapidly, but this proposal is not the way to address the problem. Many state agencies are staggering under mounting foster care caseloads and are dealing with rising reports of child abuse and neglect. A superior approach is to strengthen family preservation services so fewer children need foster care services. Such a proposal was included in H.R. 11, which was vetoed in November. The family preservation proposal was also one of the two key components of a "Children's Initiative" sponsored by Reps. Downey and Panetta last summer.

The foster care reduction proposal listed here would elicit vigorous opposition from the Children's Defense Fund and its president, Marian Wright Edelman.

Function 550

The proposal to reduce the federal share of administrative costs for Medicaid, AFDC, and food stamps, and convert these costs to a block grant that saves increasing amounts, is the most damaging proposal for poor families with children in the package. It would almost certainly lead many states to institute large cutbacks in Medicaid and/or AFDC. It would intensify state fiscal crises and be highly inequitable. Some states would get more money than needed, while others — especially states with growing populations or rising poverty, such as states experiencing economic downturns — would be skewered badly.

This proposal is analyzed in a separate five-page memo, which is attached. The proposal is a Reagan/Bush retread that CBO puts in its options book each year largely for political reasons. (CBO includes a number of Reagan/Bush proposals each year for political balance.) When an earlier version of this proposal was offered by the Reagan Administration and debated in the Senate Agriculture Committee in 1985, it was ultimately criticized even by Jesse Helms who commented, after listening to a discussion of its effects, that it made little sense.

The proposal would be vigorously opposed by the governors, who would rightly see it a sign of "bad faith" by the federal government. After mandating that states cover more poor children in Medicaid, the federal government would, under this proposal, effectively make states pay 100 percent of the administrative costs of enrolling and serving these additional children. The proposal would also be vigorously opposed by health advocacy and anti-hunger organizations and by Members of Congress such as Henry Waxman.

Functions 550 and 570 — Medicaid and Medicare savings

No savings from Medicare or Medicaid were included in our package, since all such savings will be needed to help finance the Administration's health care reform proposal. Moreover, the Administration's proposal may end Medicaid, making it odd to propose savings in this area for deficit reduction purposes. (These also are problems with the proposal discussed above to reduce the federal share of Medicaid, AFDC and food stamp administrative costs; the majority of the savings in that proposal came from Medicaid.)

Function 600

1. The proposal to terminate all COLAs for military and civilian retirees until age 62 is unrealistic politically, especially at a time when there is a need for more military personnel to retire so the military can downsize. If such a proposal generated virtually no support at all when the Pentagon budget was growing, it won't generate support now. It would have virtually no chance of passage.

I propose an alternative — a half-COLA until age 62. This actually was enacted in 1982, although it was repealed in 1983 and replaced with a one-time six-month COLA delay. Another attempt at a half-COLA could be made.

Such a proposal would itself have to be regarded as politically unlikely, especially at a time of military downsizing. There is a strong case for such proposals on the merits, but the politics are difficult.

2. The proposal to increase state payments for food stamp errors is unwise and should be dropped. It would likely be counterproductive and could lose, rather than gain, savings.

In the mid-1980s, Congress passed an error rate sanction system that was supposed to yield savings similar to the levels listed in the document. Under that system, state were sanctioned about $200 million a year, and about 45 states were subject to these fiscal penalties every year. States uniformly refused to pay, appealed, and filed lawsuits. Hardly any money was ever collected. The system did not work. It was like an atom bomb that was too big to be used effectively.

Congress asked the National Academy of Sciences to study the matter, and NAS found the system inequitable. A distinguished NAS panel strongly recommended that only those states with the highest error rates (the "outliers") be sanctioned and that the sanctions be set at a more reasonable level. This led to a year of negotiations between Congress, the Reagan Administration, and the states and culminated in a reform enacted in 1988. Under the reform, about 15 states (rather than 45) are sanctioned each year, with the sanctions totalling about $60 million or $70 million a year. In return, states gave up some of their appeal rights, and the bases on which they could contest the sanctions in court were narrowed significantly.

The new Bush Administration subsequently agreed to redesign the AFDC sanction system along similar lines. That reform was enacted in 1990.

The proposal contained here would rip up the 1988 food stamp reforms, which were painstakingly negotiated by Reps. Leon Panetta and Bill Emerson, Senators Patrick Leahy and Richard Lugar, their staffs, the National Governors' Association, and the Reagan Administration. States would accuse the new Administration of "bad faith" and demand their old appeal and litigation rights back. Little of the money would be collected in this decade.

This points to a final problem with the proposal. The federal government has yet to collect any significant amount of money from food stamp or AFDC sanctions. The idea that $500 million in additional collections (beyond those that could occur under current law) would occur by FY 1997 is fanciful and would certainly be disputed by CBO. A more accurate savings estimate for FY 1994 - FY 1997 would be close to zero, given the length of time it takes to collect sanctions even under the 1988 law. Hardly any sanctions under the 1988 law have yet been collected.

3. The proposal to collect more fees for child support enforcement services is not unreasonable, but such fees will be needed to help finance the greatly expanded child support collection efforts that President Clinton talked about often on the campaign trail. These savings aren't likely to be available for deficit reduction.

4. In place of some of these proposals, I included a new proposal to restructure the Child Care Food Program and end subsidies for meals served to children in family day care homes who have incomes above the national median. Since the day care homes component of this program is not means-tested and is growing very rapidly, this proposal would probably yield savings by the late 1990s that exceed those from the food stamp errors and child support fees proposals combined. A cost estimate on this new option is needed.

5. I also added the option to use the four highest years rather than the three highest in computing pension amounts.

Function 650

Proposing not only to count 85 percent of Social Security benefits as taxable income but also to eliminate the thresholds is politically unrealistic. It would take many moderate-income elderly people who currently pay no tax on their Social Security benefit and suddenly make 85 percent of it taxable. It is wiser to maintain the current thresholds. Since the thresholds are not indexed, they will gradually cover more and more of Social Security beneficiaries anyway.

It is hard to imagine that the Administration would wish to take on both of these battles. If the Administration is willing to count 85 percent of Social Security as taxable income and maintain the current thresholds, that itself would be courageous. The real question, it seems, is whether the Administration will want to apply the 85 percent calculation only to those at substantially higher income levels or to those above the current thresholds. Going to 85 percent and eliminating the thresholds is unlikely to be given serious consideration by the President.

Function 700

The veterans' proposals listed all have merit. The question is whether the Administration wishes to take on these fights. I included a lower level of savings here on the assumption that the Administration would be reluctant to go beyond the extension or reinstatement of the savings in veterans' programs included in OBRA 1990.

DISCRETIONARY

Function 250

I added the proposal to reduce the overhead rate for university R & D but substantially reduced the savings in the CBO book, due to concerns that savings of that magnitude would not actually be realized. I took savings one-fourth the amount in the CBO book.

Function 300

I added modest savings, reaching $100 million a year in FY 1992, from cutting back on Bureau of Reclamation projects. I also terminated EPA sewage grants.

Function 350

1. The document selects both a 25% reduction in ag. research/extension and a cut reaching $100 million a year in CSRS grants. CSRS is, however, one of the agencies covered by the 25% cut, which means the total cut would be close to 30%. While such a deep reduction can be justified on the merits, it is too deep politically, especially given the deep price support, rural housing, crop insurance, and other agriculture cuts already included. The other cuts yield larger savings and are where the major battles need to be fought. I propose both the CSRS cut and an additional cut in ag. research/extension that reaches 15% in the fourth year and is achieved by holding appropriations slightly below a freeze level each year.

2. According to the USDA budget director, who is very reliable, the CBO estimates for streamlining USDA field offices are too high. He advises that you have to invest $60 million up front and get $160 million in gross savings over five years.

Function 370

1. I did not take the CFTC fees, which are vigorously opposed by Chairman Rostenkowski. The savings are small ($55 million a year), and his help will be needed on other items yielding much larger savings.

2. The postal subsidy was already cut about 75% in FY 1993. Only small savings of about $50 million remain from eliminating it (assuming, as CBO proposes, that the subsidy is maintained for libraries and the blind and disabled).

3. The hit on SBA loans is much too large to be politically realistic. (Based on the numbers in the CBO book, it appears to hit minority loans; even if it does not, it isn't politically realistic). A combination of proposals to terminate SBA earmarked

grants and substantially reduce SBA loans is as far as one should try to go. Even that is a bit risky.

4. The proposal to reduce FmHA home loans by 50% will be seen as a meat-axe proposal, arouse strong opposition, and probably won't be viable politically. I saved almost as much by raising the amount that new borrowers have to pay to 30% of income and gradually raising the amount existing borrowers must pay, over a 10-year period, from 20% of income to 30%. It is another option included in the CBO book.

Function 400

Given the fiscal crises facing many cities, the need to maintain commercial activity in the cities at a time that increasing amounts of business activity are moving to the suburbs, and the desire of the new Administration to promote environmentally sound practices, I did not take the large hit on mass transit. It also would generate strong opposition from the mayors.

Function 450

1. It is highly unlikely the Administration will wish to terminate TVA non-power programs. I suggest a smaller reduction here, such as one-third.

2. Proposing to terminate all rural development loans, loan guarantees, and grants has no chance of political success. Also, the savings aren't that large compared to the savings in the price support programs, where the big money is. One can't — and shouldn't — attack all major ag. programs with a bulldozer at the same time. Finally, while there is much to criticize in these programs, some of the loans and grants do help low-income rural communities that are hard-pressed.

I would go after these programs but not kill them altogether — and would get a little under half the savings shown in the document. Based on recommendations of members of the USDA agriculture transition team, I recommend combining the rural development loan program and the industrial development grant program, terminating the business and industry program, modeling the resulting program after the new partnership fund, and capping it.

3. I, too, would like to eliminate EDA, but this is not politically realistic and will anger key players such as Senator Sasser. It would have no chance of success. I propose, instead, cutting EDA 15% per year until it is cut in half. That, too, would be tough politically but might have a chance.

Function 520

1. The education cuts are highly unrealistic. Candidate Clinton campaigned on many college campuses, promising to make it easier financially for students to go to college. Termination of campus aid and of state student inventive grants — cuts of $4.7 billion over four years — are not in the cards. Moreover, unless a substantial portion of the savings were redirected to Pell grants, a number of low-income students could be hurt and might be unable to remain in school.

2. Proposing to terminate impact aid, while meritorious, is politically unrealistic. Moreover, there will need to be sizable savings in the defense budget, and affected communities may resist such cuts. Proposing to end impact aid at the same time that one is trying to downsize the defense budget is probably not wise politically. I suggest proposing to terminate part "b" of the impact aid program and fighting for this proposal. That might be achievable.

3. I did not eliminate funding for math and science education. Doing so would appear to conflict with candidate Clinton's emphasis on building human capital to compete with other advanced industrial nations. I don't think the Administration would want to propose this.

4. Proposing to eliminate federal funding for the arts and humanities seems another exercise in political unreality. I agree this area should be taken on, but few will take seriously a proposal to terminate funding entirely. I've suggested a 25% cutback in the arts and humanities endowments, which would itself be highly controversial.

Function 550

The President-elect proposed to increase health research in various areas such as AIDS and women's health issues. A 10% cut in NIH seems inconsistent with those proposals. Again, I have a hard time seeing the Administration propose this.

Function 600

1. CBO advises that the savings figures regarding the delayed day care obligation are not correct and that this option saves substantial sums on a temporary basis only.

2. Except for the proposal to eliminate earmarked HUD grants, I did not adopt the proposed cuts in low-income housing programs. Appropriations for low-income housing were cut severely over the past 12 years at a time that the low-rent housing stock was shrinking and the number of low-income renter households was

burgeoning. Census data show that in 1970, there were 400,000 more low-rent units than low-income renters in the United States, but that by 1989, there were *4.1 million fewer* low-rent units than low-income renters. Housing experts such as Anthony Downs at Brookings and Margery Turner at the Urban Institute have long stressed the need for more tenant-based housing assistance. Any funds that can be scraped together from lower priority housing programs are urgently needed in this area.

In addition, Congressional Democrats, mayors, community organizations, and the non-profit housing community would be stunned by a Clinton proposal to cut the HOME program, the new housing block grant that creates public-private partnerships to address low-income housing needs in various communities and involves the non-profit sector. Legislation enacted in October 1992 on a bipartisan basis remedies most flaws in the original HOME legislation, paving the way for this to become an important program. Key protagonists such as Senator Riegle believe the principal problem now is that HOME is underfunded. Candidate Clinton promised to strengthen the HOME program.

Function 700

The various proposals to trim veterans' programs have merit but have repeatedly failed in the past against an onslaught from the veterans' lobby. I'm unsure how far the Administration wishes to venture in this area. I took much smaller savings here. I would be pleased to see larger savings if they are deemed politically realistic and the Administration is prepared to fight in this area.

Function 750

Politically, it's unlikely the Administration will wish to propose a 25% cut in anti-drug activities by Customs and DEA. I proposed a four-year freeze, which eventually translates into a real reduction of 14% but is not subject to the same type of portrayal in the media as a proposal for a 25% cut would be.

Function 920

It makes sense to propose to terminate unnecessary commissions, but the savings seem to be closer to $50 million a year than $250 million.

Clinton Presidential Records
Digital Records Marker

Corporate Support for the WIC Program [2 copies]

Corporate Support For The WIC Program

Testimony Presented to the House Committee on the Budget

March 6, 1991

Robert E. Allen
Chairman and Chief Executive Officer
AT&T

John L. Clendenin
Chairman and Chief Executive Officer
BellSouth Corporation

Dr. James J. Renier
Chairman and Chief Executive Officer
Honeywell, Inc.

Robert C. Winters
Chairman and Chief Executive Officer
The Prudential Insurance Company of America

William S. Woodside
Chairman
Sky Chefs, Inc.

MEMO

To: Jerry Julius, Mike Telson

From: Bob Greenstein

Date: January 8, 1993

Re: Correction in EPG/DPG numbers for full funding for WIC

In the campaign and in *Putting People First,* President-elect Clinton called for full funding for WIC. In late November, domestic policy group staff asked me for numbers for full WIC funding.

This is an issue our Center has studied extensively, and we provided numbers, based on earlier CBO work, that estimated the costs of fully funding WIC by FY 1996. (In 1991, a panel of five leading corporate executives testified at a special House Budget Committee hearing on the need to fully fund WIC by 1996 to help meet the first national education goal, namely, that by the year 2000, all children should start school ready to learn. Subsequently, the House Budget Committee under Leon Panetta's direction and the Senate Budget Committee have affirmed the goal of fully funding WIC by FY 1996 and recommended the necessary funding increases.)

At some point in December, DPC staff decided to move the goal to full funding in FY 1997, and due to some confusion over baseline issues, the numbers did not come out exactly right. I have contacted DPC staff about this, and they are notifying DPC officials to substitute the numbers shown here for the numbers in the DPC mid-December submission. They've asked that I notify Budget Policy Group members of this change. It is shown here. As you can see, the FY 1997 difference is only $36 million.

Full Funding by FY 1997

	1994	1995	1996	1997	1998
		(in billions)			
DPC submission	.361	.570	.776	1.083	1.110
Revised numbers	.361	.614	.866	1.119	1.158

Two additional points. CBO is now conducting a new study of the costs of fully funding WIC based on 1990 data from the Survey of Income and Program Participation. The CBO estimates should be available in late January and should probably replace these estimates at that time.

Second, I would imagine that the question of whether to obtain full funding in FY 1996 or FY 1997 is not a settled one. There is no appreciable difference in FY 1997 costs (WIC has close to a 100% spend-out rate), and there has been overwhelming bipartisan support in Congress for the FY 1996 goal. Meeting the goal in FY 1996 would also allow full funding to be attained before the 1996 election.

Be to the rt of Bob Dole?

BRINGING WIC TO FULL FUNDING BY FY 1996

In March 1991, a panel of leading corporate executives testified before the House Budget Committee that Congress should increase WIC funding at the rate necessary to achieve full funding by FY 1996. Because children born then would be entering school in the year 2000, the CEO's noted this was necessary if the nation was to achieve the national education goal that by the year 2000, all children should start school ready to learn.

The goal of full funding by FY 1996 was subsequently endorsed in both the House and Senate budget resolutions. The Committee report accompanying the FY 1993 House resolution reaffirmed that goal. This seems to be the appropriate goal for the new Administration to meet.

How much would this cost: The CBO Estimate

In 1991, the Congressional Budget Office estimated the annual increase that would be needed between fiscal year 1992 and fiscal year 1996 to reach full funding for WIC in fiscal year 1996. There are reasons to believe, however, that CBO underestimated by a modest margin the number of people eligible for WIC in 1996, which results in an underestimate of the cost of full funding.

This analysis presents an alternative projection of the number of people eligible for WIC — and thus the cost of full funding — in fiscal year 1996. It also presents the annual increases above the baseline needed to bring WIC to full funding in 1996.

The Number of People Eligible for WIC Has Grown Faster than CBO Estimates

The Congressional Budget Office estimate of the number of people eligible for WIC is based on an analysis of 1987 income data from the Census Bureau's Survey of Income and Program Participation, the most recent SIPP data available at the time the CBO analysis was conducted. To generate estimates of the WIC-eligible population for years after 1987, CBO adopted a formula for estimating annual growth since 1987 in the number of people eligible for the program.

A Center on Budget and Policy Priorities analysis issued in 1991 concluded that the CBO estimate of the number of people eligible for WIC in 1987 was basically sound.[1] But recent evidence demonstrates that CBO underestimated the growth in the number of eligible people after 1987. This occurred primarily because the

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[1] *How Many People Are Eligible for WIC?*, Center on Budget and Policy Priorities, February 1991.

estimate did not take into account the effect of increased child poverty rates or increased birth rates on the size of the WIC-eligible population.

A Revised Estimate

CBO assumed that the rate of growth in the WIC-eligible population would mirror the growth rate for the U.S. population as a whole. Using Census Bureau projections of overall population growth for years after 1987, CBO estimated that the WIC-eligible population would grow slightly less than one percent per year — or a total of eight percent between 1987 and 1996.

It is now clear this estimate of growth in the WIC-eligible population is too low. While CBO forecast that the number of people eligible for WIC would grow 2.6 percent between 1987 and 1990, recent Census data show that the WIC-eligible population has grown much faster than that.

- Census Bureau data show that the number of children under age six in families with incomes below 175 percent of the poverty line (the published Census data that most closely approximate the WIC-eligible population) grew *nine percent* from 1987 to 1990.

- Using Census tapes, USDA estimates the WIC-eligible population grew 6.7 percent *just between 1989 and 1990.*

The CBO forecast appears to be too low for two reasons. First, it does not take into account the effect of changes in the economy and other trends on the number of families with incomes low enough to qualify for WIC. Because the CBO estimate is based solely on projections of population growth, it implicitly assumes no change in child poverty rates after 1987 and does not take into account economic factors and other trends that have been pushing up child poverty rates.

The second reason the CBO estimate is too low is that the number of live births has climbed substantially since 1987, reaching in 1990 its highest level in 26 years. As a result, the number of pregnant women and young children is growing at a significantly faster rate than the overall population. CBO effectively assumed these populations would grow at the same rate.

By using both the most recent Census data and the most recent Census Bureau population projections, and also using the latest CBO economic forecasts,[2] the CBO

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[2] These projections take into account a CBO projection that the unemployment rate will drop to 5.7 percent in 1996 and assume that poverty rates will similarly decline.

estimate of growth in the WIC-eligible population after 1987 can be updated. When this is done, the estimate of the WIC-eligible population in 1996 is found to be 4.3 percent higher than the CBO estimate.

As a result, the estimated costs of fully funding WIC are 4.3 percent higher than the CBO estimate. CBO estimated the costs of fully funding WIC at $4.05 billion in FY 1996; the new projections suggest the costs will be approximately $4.22 billion. This is less than $200 million above the CBO estimate.

The new full funding figure of $4.22 billion is $1.083 billion higher than the fiscal year 1996 baseline of $3.137 billion. This baseline number is projected from the fiscal year 1993 appropriation of $2.86 billion, using the CBO August 1982 inflation projections. Full funding in fiscal year 1996 could be achieved through three annual increases of $361 million above these baseline levels. These figures are presented in the table below. (The table also shows how these increases relate to the baseline CBO published in August 1992 that was based on *fiscal year 1992* appropriations levels. Those baseline figures are lower than the current baseline figures because an increase above the baseline was approved for WIC in FY 1993. Hence, the annual funding increases needed appear higher than $361 million when the earlier baseline figures are used. Stated another way, some of the needed WIC increase has already been achieved in the FY 1993 appropriations bill.)

Funding Increases Needed to Bring WIC to Full Funding in FY 1996

	FY 1994	FY 1995	FY 1996
		(in billions of dollars)	
Appropriations Needed To Reach Full Funding in FY 1996	$3.313	$3.765	$4.220
Estimate of CBO Current Baseline*	2.952	3.043	3.137
Amount Needed Over Baseline	0.361	0.722	1.083
CBO August 1992 Baseline**	2.772	2.865	2.961
Amount Needed Over Baseline	0.541	0.900	1.259

* Based on FY 1993 appropriation level
** This baseline is based on the FY 1992 appropriation level

This revised funding estimate uses the same methodology the Center on Budget and Policy Priorities employed this spring in evaluating and updating the

CBO estimate, at the request of the House Budget Committee. The Committee used the Center's revised estimate, rather than the CBO figure, in charting the path to full funding in FY 1996 that is reflected in Committee documents accompanying the House FY 1993 budget resolution.

CENTER ON BUDGET AND POLICY PRIORITIES

MEMO

To: George Stephanopoulos

From: Bob Greenstein

Date: December 29, 1992

Re: More on communications ideas aimed at low- and moderate-income families

Since I sent the memo that Bob Boorstin requested, I've had an additional idea that intrigues me. Could Bill Clinton, Hillary Clinton, or the two of them together hold a press conference — or cut PSAs to air this winter and early spring — on the need for low- and moderate-income working families with children to take the steps needed to get Earned Income Credit benefits? A number of mayors and governors have done this, but no President ever has.

As you know, the earned income credit is strongly supported across the political spectrum because it is pro-work and pro-family. But many eligible families miss out on the credit because they don't know how to file for it, a problem that will intensify next month when a new requirement takes effect for families to file a separate tax schedule to get the EIC. If the new President undertook such activities, it would communicate very effectively with these constituencies and demonstrate strong concern on the Clintons' part. It would show President Clinton on the side of hard-pressed families that are "playing by the rules." It would portray him as endeavoring to have government work for these families, not just for those who can hire fancy tax lawyers. Also, it would help more of these families get the benefits they have earned. Some background and specific suggestions follow.

Background on the EIC and the need to publicize how to file for it

Working families with children and income up to $22,370 are eligible for the EIC. Nearly 14 million families received it last year. But a substantial number of eligible families miss out.

777 North Capitol Street, NE, Suite 705, Washington, DC 20002 Tel: 202-408-1080 Fax: 202-408-1056
Robert Greenstein, Executive Director ★ Loring Henderson, Deputy Director

To get the credit, an eligible family must do two things — file a tax return and file a separate tax schedule called Schedule EIC. But working families with incomes below the poverty line owe no federal income tax. If their W-2 form shows no income tax withheld, they may fail to file. If they don't file, they lose the EIC payment they have earned.

Also, starting with the coming tax filing season, families that do not attach Schedule EIC will not receive the credit. This is a new requirement. (Schedule EIC was introduced last year, but IRS did not enforce the requirement that families must file it; now IRS will begin enforcing the requirement.) Many eligible families that don't understand complex tax forms and tax rules could lose out.

This problem takes on added weight due to the large number of normally middle-class families that were unemployed for part of 1992 and thus have incomes low enough to qualify. Many of them never qualified before, know little or nothing about the EIC, and may not know to file the new tax schedule.

Background on the "EIC Campaign"

For five years, our Center has conducted an EIC outreach campaign to alert low-income working families of the need to file a tax return to get the credit. The campaign is now probably the largest, ongoing outreach effort of its sort ever mounted. Most governors, many mayors, major church denominations, unions, business trade associations, hundreds of service providers and community groups, the United Way and other charities participate. (As governor of Arkansas, Bill Clinton was a participant and his Administration helped pull together a broad-ranging public sector/private sector coalition to promote the EIC in his state.) The Internal Revenue Service, as well, is a partner in the campaign. In the coming filing season, we will distribute about 20,000 EIC outreach kits we have developed, which include bilingual posters, flyers, and envelope stuffers. About 6,000 state and local agencies and organizations will be involved.

Normally, we kick off the EIC campaign with a press conference that generates hundreds of news stories across the country. Last year's press conference featured the Commissioner of the IRS and other national leaders.

In addition, Children Now, a very sophisticated non-profit organization in California that excels in communications work and has extensive Hollywood contacts, each year produces EIC television PSAs, which the major networks and many local stations air. This year, Children Now is shooting PSAs involving the casts of "Cheers," "Major Dad," "In Living Color," and "Days of Our Lives," as well as Danny Manning of the L. A. Clippers, Edward James Olmos, and several other actors.

Possible Activities Involving the Clintons

In many cities and states, the mayor or governor holds a press conference kicking off the local EIC campaign and showcasing the public/private partnership involved. But no President has done this. If you would like to hold a press conference, we could help to assemble several other leaders from the public and private sectors to appear with the President. The press conference would present Clinton standing with ordinary working families and forging public/private coalitions to strengthen families that earn only modest wages. I believe it would get outstanding coverage.

Alternatively, a high-ranking individual could represent the President. Hillary would be terrific.

The second possible activity — and the two are *not* mutually exclusive — would be for Bill Clinton, or Bill and Hillary Clinton together, to shoot a PSA explaining the importance of this credit and how it can help working families. They could express their concern that eligible working families file a tax return and attach the new tax schedule to make sure they receive the credit they have earned. Once again, the Clintons would connect with hard-pressed working families. They would demonstrate their desire that the government work for these families.

Children Now could arrange for the filming and distribution of the PSAs — or other arrangements could be made if you would prefer. My first choice would be to do *both* the press conference and the PSAs. In addition, a Hispanic Cabinet member such as Henry Cisneros, who I believe is familiar with the campaign, could do Spanish language PSAs.

Maggie Williams knows some about the EITC outreach campaign. She advised us on some of the communications aspects of the campaign when we launched it in the late 1980s.

50 pages

Liz-Peg 822-4107

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Call Bo

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THE FEDERAL BUDGET AND

THE ENTITLEMENT STRUCTURE IN THE 1980's

W. Bowman Cutter III

As the nation's budget problems have mounted, as structural deficits approaching $200 billion have developed, the network of entitlement programs in the budget and their impact upon the budget have become issues of increasingly greater significance. But they have not been issues that public debate has helped to clarify. They are issues our political system has, to date, discussed in general but failed to grapple with in detail; issues the system wishes would go away. But they have not gone away, they have remained a major - and perhaps the most difficult - element of our overall budget crisis. For example, between 1977 and 1982 the defense budget increased by about $85 billion: every cent of which was proposed by a Secretary of Defense, budgeted by a President, allocated by the budget committees of Congress, and appropriated by other Congressional committees. However one views the outcome, there was no lack of public debate regarding defense spending. But in the same five years, entitlement spending in the areas of income assistance and health, increased by $128 billion automatically and with virtually no debate. No cabinet secretary argued for these increases. Presidents never made real decisions regarding them. They were simply a category presented to the President by OMB labeled "relatively uncontrollable."

over-simplifies

False

Presidents who defy that label are regularly taught a lesson the politics of the federal budget. In 197~~8~~9, President Carter submitted proposals to Congress as part of his 1980 budget intended to reduce the growth of the entitlements by less than 10%, the first proposals of this kind ever submitted. The proposals were never taken seriously but he paid politically for the rest of his Presidency for daring to make the proposals at all. In the Spring of 1981, the Reagan administration indicated that it was considering a number of social security changes. The reaction to this announcement forced President Reagan to disavow any such intentions in his nationally televised September 1981 speech. The issue, however, did not disappear and was a factor a year later in the 1982 Congressional elections.

But after the campaigns, the substantive problems presented by the current structure of entitlement programs remain. The most immediate, controversial, and visible entitlement issues are the two kinds of financial problems faced by the social security system: the short run problems certain to be encountered in the next decade, and the long run problems likely to arise early in the next century. These separate issues are major problems because the social security system itself is so large and so important. But the overall problems of federal budget size, growth, structure, and control posed by the entitlement network are at least as important and of more general significance. It is quite likely that the problems of individual entitlement programs cannot be resolved satisfactorily until an approach

Written as tho [illegible] low income entitlement cuts of last 3 years never occurred - contrast to the overall entitlement structure is fashioned. It is certain that the problems of the federal budget cannot be resolved until such an approach is devised.

The Perceived Versus the Real Federal Budget

Most official discussions of the federal budget of the last two years suggest the underlying notion that budget management and control is only a question of the exercise of adequate will. Often the absolute size of the budget - $760 billion, with $1.9 million civilian employees - allows the presumption that budget reduction should be easy to achieve in something called the base - that part of the budget not presently being debited. Or it is assumed that across the board cuts, or modest tradeoffs are easy to make. Why not cut 5% from every program in the budget? Why not re-allocate $10 billion to/from defense to/from health and human services? Why not simply hold the line in the 1984 budget and keep some of the totals constant? As a last resort, discussions of this sort turn to prospective anticipated fraud and waste savings as a means of budget control. The Reagan administration's 1983 budget was the all-time leader in the "anticipated savings from anti-fraud and waste" category but other administrations have turned to the same techniques.

All of these attitudes seem to imply two judgments about the federal budget. First, they imply the judgment that,while symbolically important, the problems of the federal budget do not matter substantively. Or else why propose "fraud and waste" savings which are known in advance to be unlikely? More importantly, they suggest the notion that the categories of spending in the budget are basically homogeneous - allowing tradeoffs, across-the-board cuts, and reductions in the base.

But the problems posed by the federal budget are very real. Throughout the last decade the budget's relative size, its apparently built-in rate of growth, its unending, structural deficits become increasingly disturbing. Its structure met our needs less and less well. Its allocation of resources seemed more and more misguided. With the recent emergence - after the tax reductions of 1981 - of structural deficits exceeding $150 billion, multiples higher than at any point in the past, the federal budget has become a principal preoccupation of national policy.

At the same time, the perceived budget - the budget as discussed publicly - is not the budget that has developed over the past thirty years. It is not the budget that drives Presidents crazy, or undermines public policies. As an example, Reaganomics has created a state of budget disarray unmatched in our history. The supply-side tax cuts were imposed upon a structure which could not absorb them and the result has been chaos. This policy and its resulting damage resulted because the perceived budget was mistaken for the real budget. Complexities were underestimated. Change was depicted as easy. Political discussion of the budget by the Administration conveyed the sense that the federal budget could easily be reduced by cutting fraud, waste, and bureaucrats. Our current situation was described as if it had been created by a malevolent government against the will of the American people.

Reality is different. The structure of the real budget looks like this:

present level

Table I - 1981 Budget

		(Billions)	%
Entitlements			
(payments to individuals - required by law)		$316.6	48.2%
Defense			
Military personnel	$36.4		
Defense pensions	$13.7		
Defense expenditures	$109.7		
TOTAL		$159.8	24.0%
Net interest payments		$68.7	10.5%
All other (discretionary spending)		$112.1	17.0%
TOTAL		$657.2	100.0%

This budget is an extraordinarily complex and inflexible crystallization of agreements - or uneasy compromises - among institutions, competitors, interests, and philosophies. It is not begun fresh each year. It does not represent pure analytic judgment, but rather a melange of analysis, regional concerns, ethnic concerns, fads, power, short and long range political calculations by a variety of players, temporary agreements to disagree, and nostalgia.

But above all, programs in the real budget differ from each other in kind. They are responsive to different concerns, they cover different time periods, they are analyzed in different ways, using different assumptions. They have different legal structures.

Slightly more than 10% of this pre-Reagan budget - the numbers are different today but the structure is the same - went to interest payments of Federal debt. These costs are determined entirely by interest rates and cumulative Federal debt. They are completely uncontrollable, and higher today than two years ago. 17% of the budget is allocated for all discretionary programs. This category covers virtually every government program anyone ever heard of. Salaries for most government workers, the Beekeepers Indemnity Fund, the White House Hairdresser, public service jobs, college tuition loans, foreign aid, production costs for nuclear bombs, the Edward Herbert Medical College of the Armed Forces, the Merchant Marine Academy and thousands of other programs fit into less than one-fifth of the budget. Twenty-four percent of this budget was allocated to defense. This category of spending is planned by the Reagan administration to rise to 37% of the budget by 1986. Finally, 48% of this budget consisted of entitlement payments to individuals - payments such as social security or government pensions to which individuals are entitled as a matter of law. These entitlements are not "budgeted" in the normal sense of the term but are simply estimated during the budget process.

In other words, the $316.6 billion for entitlements was not a figure decided upon by anyone; but was, rather, the end result of formulas built into the law. In fact, the original estimate of expenditures for this category back when the 1981 budget was first proposed was $302 billion, $14 billion less than it turned out to be.

This is the real budget with which presidents and congress must contend. Its structure means that many intuitive judgments about the budget are wrong. That underlying structure affects fundamentally the way the budget has changed, and will change; and makes year to year budget control extraordinarily difficult. This reality sharply limits a president's flexibility in other areas of public policy - economic policy, or tax policy. It becomes an enormous obstacle to sensible programmatic decisions. And the entitlement programs constitute a major reason why the real budget is so different and so difficult.

explain why infla & unemp. fails to explain 1) why increase occur (not incr. in caseload) or 2) can change thru leg. - recalculation (1977 Soc Sec.) disability change

Entitlement Structure - Budget Interactions

In the last twenty years, entitlement payments have doubled as a percentage of the budget and of GNP. They now make up half the budget and over 70% of federal domestic expenditures. Between 1971 and 1981 these payments rose by 79% in real after-inflation terms. By contrast national income rose 36% after inflation; and the median income rose 7%.

unemp. a factor

Table II

Payments for Individuals ($B)

	1961	1971	1981	Rate of Growth
Social Security	$13.1	$37.1	$143.5	12.7%
Federal Retirement	3.8	10.2	40.8	12.6%
Unemployment	4.7	6.2	26.0	8.9%
Medical Care	1.2	14.1	56.5	21.2%
Student Assistance	.25	2.5	4.3	15.3%
Housing Assistance	.15	.74	6.6	20.8%
Food Assistance	.24	2.2	14.9	22.9%
Other	4.7	9.1	23.4	
TOTAL	$28.1	$82.1	$316.0	12.8%

Particularly wrong

By any realistic measure, these programs and, more importantly, their recipients, have fared extremely well in the last two decades. Twenty years ago there was virtually no federal support in a wide range of areas for which the absence of federal monies would now be inconceivable.

Yes - but
1) maturing of Soc Sec
2) creation of progs in med
3) Poverty in USA - 1962

Table III

	1961	1981
Federal Employment Benefits	$ .171	$ 1.837
Medical Care	1.208	68.868
Non-Veteran Student Assistance	0	6.000
Housing Assistance	.155	6.700
Child Nutrition	.157	3.400
Food Stamps	0	11.253
Supplementary Food Programs	0	.930
Public Welfare Assistance	2.000	8.500
Supplemental Welfare Assistance	0	7.200
Energy Assistance	0	1.700
Black Lung Assistance	0	.680
TOTAL	$3.69 B	$117.07 B

The development of these programs over 20 years reflects a major broadening in what are now considered to be central roles and responsibilities of government; a broadening which suggests an entirely different public conscience.

During this twenty years, the central thrust of the federal government changed forever. In 1961, over 70% of the federal budget was devoted to defense related costs (current defense costs, veterans payments, debt service incurred by past wars). The domestic budget covered the costs of operating the government, of managing public lands and public works, and of the early Social Security program. In that year, Social Security cost about $13.0 billion.

In the next twenty years the role of government changed fundamentally. The change occurred over a generation and forever altered our views of the public sector. We ask the government now to provide direct services; to finance other levels of government; to support growth and stability in the private sector; to regulate industry; to protect us in emergencies; and to lend us money. But most of all, we now expect government to transfer income to a degree that would never have been possible two decades ago. The list of 1981 programs in Table III would have represented complete victory for the progressive or liberal agenda in 1961. Over this period we created a vast assistance network which now provides help to Americans in all major areas of need. Such a network is the measure of a mature and decent society. Such assistance - to the elderly, the poor, the sick, the unemployed - should be an obligation in a society as rich as ours. - still comparatively small relative to Europe -

But the creation of this network has had other less beneficial effects as well. As these entitlement programs have grown, they have altered completely the character of the federal budget. The budget is today, much more than it was 20 years ago, an instrument of income redistribution. More importantly, the growth of these programs has represented an unconscious long term shift of America's resources from

AFDC - -29%
FS - income loss -
picture of how great % the people led is overstated

investment to consumption. Above all, because this network now has a momentum and direction of its own, it has determined the direction, the emphasis, the role of growth of the entire federal budget and has restricted the choices available to public policy. The entitlement network and the structure of the real budget makes tradeoffs between spending categories almost impossible. Programs and dollars are neither interchangeable nor fungible.

More importantly, this structure makes year to year control of the budget extraordinarily difficult. Consider the changes that occurred between the 1979 and 1981 federal budgets. Over the course of these two fiscal years, spending rose by $166 billion, or 34%. These increases occurred in a period of deep concern regarding public spending and budgetary restraint. Why were they allowed to happen? — inflation & unemp — need to say it misleading

Table IV

Total Spending Increases - 1979-1981

Source and Composition

	Billion $	Percent
Total Increase	$166	100%
Payment to Individuals	+$89.1	54%
Defense	+$42.1	25%
Interest	+$26.1	16%
All Other	$9.0	5%

As Table IV indicates, the word "allow" is not relevant. Virtually all of the spending increases from the end of 1979 to the end of 1981 were either mandatory or the result of policy commitments with which most of the nation agreed. To be precise, of the total increase in spending from 1979 to 1981, 95% went to interest, defense, and entitlement payments required by law.

In the course of making year to year budgetary control so difficult, this same structure has stymied long run budgetary management. In the absence of explicit long run budget management, the automatic structures of the budget have produced major and dramatic but unplanned changes in the pattern of our public spending.

Wrong as regards Soc Sec — always planned

SS maturing

Table V

Long Range Budget Changes - 1959-1981

	1959 % Composition	1981 % Composition
Payments to Individuals	24.2%	48.2%
Defense	49.9%	24.3%
Interest	6.3%	10.1%
All Other	19.6%	17.4%

The most dramatic change was the almost exact switch of positions between entitlement payments and defense. Over a 20 year period, half of the total budget came to be taken up by automatic payments to individuals; while defense declined correspondingly.

Table VI

Long Range Budget Changes - 1959-1981

	1959	1981	Annual % Change
Payments to Individuals	$22.3	$319.2	12.86%
Defense	$46.0	$161.1	5.86%
Interest	$5.8	$67.0	11.76%
All Other	$18.1	$115.5	8.79%
TOTAL	$92.1	$662.7	9.38%

Over this period, Defense grew at about the rate of inflation. The "all other" category grew, after adjustment for inflation, only 2.9% annually. Payments to individuals, however, have exploded. As an example, in 1968 less than one billion was spent annually on health care. That year - with the passage of medicare and medicaid - $1.5 billion was spent. Sixteen years later, in 1981, $60 billion was spent; an annual growth rate of 27%.

Social Sec spending grew at most rapid rate in [illegible] Emp [illegible]

Little indexation of benefits of these or need for it - Europe [illegible]

Over the last 22 years, the growth of entitlement payments has fueled the growth of the federal budget in total, and has led to a fundamental change of character in that budget. The federal budget has grown by $571 billion since 1959; $297 billion of that growth has come in the category of payments to individuals.

Whatever the merits of this change, it also meant in structural terms that the budget was more difficult to manage, far more of an automatic transfer mechanism, and much less susceptible to change. As an example of the importance of long-term budgetary management, if presidents had been able to hold the growth of these programs to 11% annually - almost twice the average rate of inflation - then in 1981 their total cost would have been about $220 billion, and the 1981 real budget, if all other spending had remained the same, could have been about $550 billion.

We cannot indefinitely sustain the entitlement structure growing at these rates. We cannot allow 50% of the federal budget to grow unimpeded and expect either to control the nation's fiscal policy or to leave room in the budget for anything else.

But pressure on these programs will not abate automatically. Over the next few years we will experience only moderate increases in the entitlements - certainly in comparison to the rates of increase of the 1970's. Defense increases, the several year tax cuts initiated in 1981, and the effects of persistent recession on low rates of growth will all have more effect on the deepening structural deficits than will the entitlements over the next several years. But even so we can anticipate rates of increase for the entitlement programs of 7% to 10%, and therefore a doubling of their costs every 7 to 10 years.

Table VII

	1981	1985	1990	1995
Entitlement Costs at 7% Annual Growth	$316.	$414.	$581	$814.

And from a very long run perspective, these rates of increase are probably understated. In fifteen to twenty years, the "baby boom" will begin to retire. At that point, the elderly population will grow enormously and all of these programs will come under even greater cost pressure.

Yes, but
no of depend.
children goes
down

These changes are far in the future - farther than public policy faced with the inevitable political constraints of the here and now can normally reach. However, these programs are so large, their impacts so widespread, their politics so delicate, that changes intended to have effect in 20 years must be initiated today. If we are to provide adequately for the elderly, the sick, the handicapped, and the poor of the 21st century, we should begin to alter the entitlement programs today. The following three characteristics of these programs must be part of any successful policy of change.

false –
exp.
calculation

To begin with, these programs are not now subject to any form of control. ~~They~~ are not budgeted by the executive, they are simply forecast. Most are not subject to the appropriations process, but are instead permanently appropriated. Payments are based upon underlying law which defines a category of individuals and the payments to which they are entitled by the law. In order to change these payments, the underlying law must be changed - a process which is harder procedurally and vastly harder politically than changing budgeting requests and appropriations. A budget focus alone will not succeed in changing the entitlements. What is required is a longer run strategic focus.

ve.. misleading

Moreover, these programs do not compose together a considered and articulated structure of income maintenance programs. They are instead a jerry-built arrangement which has "just growed" over 50 years with little attention paid to its internal mechanism; they used it with enthusiasm. Today we have, as basic programs, social security, federal retirement, medicare, medicaid, unemployment compensation, and food stamps. But we also have housing programs, education programs, energy grants, low income weatherization, and aid to families with dependent children. These programs were conceived, passed and implemented at different times and they have not changed as new programs were added or as the economy changed. Benefits are uncoordinated. There are no common standards of need; no common definition of an adequate income; no accepted way of comparing cash and non-cash benefits. Interactions between these programs are not controlled. What we now need, and what the taxpayer and the recipient deserve, is for the government to treat these programs as a category, to establish a more cohesive structure; a rationalization, a careful trimming of overlaps and redundancies.

overstates some are - e.g. all cash counted toward FS

Finally, the great majority (about 90%) of these payments are indexed to the economy in one way or another. These uncontrollable, automatic increases are wonderful for the beneficiary, terrible for the budget, and unfair to the taxpayer. From 1979 through 1981, increases in the Consumer Price Index ran well ahead of wage increases. Indexation - therefore - required medium income wage earners (remember, most taxes are paid by families who earn only a little more than the medium income) to fund through their taxes larger increases in entitlement income for others than they themselves received in wages.

Cole vs - Sch l/FS - 43% below 50% of pov. line

Searching for Solutions

The development of a productive and effective public policy regarding the entitlement programs must occur at a number of levels. Certain overall policies can begin to be consciously and explicitly applied. But the specific issues posed by individual programs must be addressed. In particular, the short and long range financial problems faced the social security system must be considered fairly rapidly. The social security system is too large, too important as a basic source of income and its financial condition too much a source of concern to allow its problems to persist unresolved. Finally, in addressing social security it will be immediately apparent that solving any of the problems of the entitlements comes down in the end to an unpalatable list of specific benefit, tax, and structure changes. The problem is not an absence of ideas. There is no shortage of specific suggestions for taming the entitlements - nor is there anywhere a set of hithertofore unspoken, brilliant ideas - but there is a noticeable, and understandable, lack of enthusiasm for considering specifics.

The social security system makes up 54% of the entitlement network and is,simultaneously, the largest of the entitlement programs and the largest, most basic retirement system the nation possesses. In 1978, social security provided 38% of all cash income for persons over 65. Social security benefits made up 90% or more of the income of nearly a quarter of the elderly. It is worth emphasizing that social security is not even remotely an actuarially based pension system. Payments made by individuals do not earn a specific return which is later paid back as an annuity. The benefit structure is defined independently of the payment system; benefits are highly progressive; those with low lifetime incomes receive, proportionately, far more in benefits than those with higher incomes. Social security is and always has been a pay-as-you-go system operating through trust funds. The system consists of three major trust funds - the old age and survivors, hospital, and disability funds - financed by means of payroll taxes, which have been the fastest growing of all federal taxes. The payroll tax grew from \$16.4 billion to \$182.7 billion, an annual rate of 12.8% between 1961 and 1981; and today for most families with incomes below \$18,000-\$20,000 it is larger than the federal income tax.

The payroll taxes are paid into the trust funds; no benefits are subsequently paid from the funds. Surpluses in the funds - there have always been surpluses until the last few years - are invested in United States securities and interest is credited to the funds. Since 1967, the United States budget has been presented in a unified format. Social security taxes and payments are included in the budget totals, but the accounts are still kept internally distinct. Since 1981, the social security trust funds have been able to borrow from each other. They have never been able to borrow from general revenues.

Social security faces two serious financial problems - one in the short run, during this decade; one in the long run, in approximately forty years. The short run problem has been caused by the perverse combination in recent years of high inflation - which raises benefit payments rapidly; recession and low economic growth - which lower social security revenues; and a continually increasing elderly population. It is now generally agreed that the combined balances in all those trust funds will be insufficient to pay scheduled social security benefits after 1984. Approximately $150 billion to $200 billion must be found in some combination of reduced benefit growth or higher taxes to keep the trust funds in balance.

The long term problem is, independent of the short run problem, more systemic and has its origins in the changing population structure of the United States. Population growth is slowing substantially, and America's elderly are living longer. As a consequence, in about thirty years when the baby boom retires there will be proportionally far fewer working taxpayers than there are now to support a larger and rapidly growing elderly population. All current projections - of the elderly population and of the economy - suggest that over the next 75 years, if the system is not changed, benefits paid by the system will exceed tax revenues received by about 1.8% to 2.0% of the taxable wage base. Solving this problem requires changes to the structure of social security in this decade that will have their principal effect after 2010 A.D.

The short run problem is the more difficult politically of these two problems to fix. Whatever actions are taken must affect taxes paid or benefits received in this decade, that is to say the incomes of current voters whether working or retired. Nevertheless, the problem could be solved by a combination of the following actions:

- Accelerate to 1984 the payroll tax increase of from 5.4% to 6.2% now scheduled for 1990. Effect: an additional $120 billion over the decade.
- Increase by 1986 the annual earnings subject to social security taxes to $50,000. Effect: $6 billion.
- Postpone the automatic cost of living increase by three months - from July to October. Effect: an additional $20 billion.
- Reduce the cost of living increase to 75% of the consumer price index. Effect: an additional $60 billion.
- Tax one-half of social security benefits for couples with incomes above $25,000 ($20,000 for single individuals). Effect: an additional $20 billion.
- Bring new federal employees into the social security system. Effect: an additional $20 billion.
- Retain the earnings test (restrictions on outside earnings) for beneficiaries aged 70 and 71. Effect: an additional $4 billion.
- Require self-employed workers to pay the full payroll tax (employee and employer share) but allow them to deduct it from income tax. Effect: an additional $15 billion to

social security trust funds (this is an indirect transfer of funds from General Revenues to the trust funds).

- Limit retroactive entitlement to social security benefits to three months instead of one year. Effect: $5 billion.

The debate in recent months has focused on whether to solve the short run problem by tax increases or by benefit reductions. This list of suggestions straddles both sides of the issue. The tax acceleration makes far more sense today than it would have before President Reagan's 1981 tax cut. The more moderate indexation change compensates for indexation related over-payments in the late 1970's. The taxation of social security benefits above a certain level recognizes the fact that not all social security recipients are poor. These actions taken together - except the more extreme of the indexation alternatives - sum to $210 billion, the upper range of the projected gap and enough to solve the short run problem.

why list?

The strategy suggested here for meeting the short run problem is to take a series of steps which together constitute incremental adjustments to the current system. Major structural change should not be - and in any case politically could not be - initiated as a means of solving the short run problems. Moreover, those who truly depend upon social security should not have to absorb the major part of the necessary changes. Accordingly, in this list of suggestions the burden of adjustment is placed disproportionately upon taxpayers rather than benefit recipients. Over 60% of the "gap" is met by increased taxes; and none of the changes impose difficult adjustments on those close to or already in retirement.

But the social security strategy for the long run should be - if the nation desired - substantially different. The retirees in the years 2010 and beyond are in their middle thirties or younger today. Over the next thirty years, this group could presumably adjust retirement planning to any reasonable set of conditions. Structural changes to the system can be envisioned, and there is more latitude for planning changes in benefits. For all these reasons the range of possible strategies for change is wider than was the case for the short range problems.

No — low wage, minority, women

- Major structural change could be envisioned for the system. For example, the system could be subdivided into (1) a mandatory basic system, and (2) a voluntary supplemental system. The mandatory system would be explicitly non-actuarial, progressive, and intended to meet basic retirement needs. Its benefits would be more restricted than those the current system envisions. The supplemental system would be managed as a pure annuity.

- Supplemental systems could be developed which integrated social security with the individual retirement accounts permitted since 1981 or with other retirement savings incentives. The federal government, for example, could provide an individual retirement account financed through voluntary increased payroll taxes - with this portion deductible from income taxes - with funds invested in government securities.

Some such approach requires closer examination, for several reasons. First, social security was never expected to become - and never could become - the only source of retirement income. Individuals must take responsibility for their own retirement planning. Second, the passage of the individual retirement account legislation in 1981 was the most major change of retirement policy in decades. It provides an enormous incentive for early, retirement savings. It also provides reason to believe that individuals will increase retirement savings, and it gives scope for considering a future restructuring of social security. But third, inevitably in a private and voluntary system some individuals will not provide for themselves, or will make mistakes. Therefore a rationale exists for the federal government to provide a mechanism to encourage private savings and to provide safety for them.

For some, I must see

° A series of individual changes could be proposed which do not constitute major restructuring of the social security system.

Can some easily women unmarried

(i) The retirement age could be raised from 65 to 68, phasing in the increase by two months each year from 2000 A.D. to 2018 A.D. Such a change would be consistent with the increase in life expectancy at age 65 which has been experienced since 65 was established in 1940 as the social security system retirement age.

(ii) Benefits now planned for 2020 A.D. could be reduced now by a stated percentage - 5% or 10%. The men and women this change would affect are now 35 or younger, and could be asked to begin to plan such a change now.

Same issue

(iii) A payroll tax increase of one to one and a half percentage points could be planned for 2020 A.D. This increase could be deducted against federal income taxes.

(iv) "Drop-out years" - a provision which allows elimination of the years of lowest earnings in computing average wages - could be reduced or eliminated. These drop-out years could be reduced - with substantial savings - by phasing in one year every five years between 2000 and 2015.

(v) Social security's vesting requirements - which have not been changed since the beginning of social security - could be tightened. Only one quarter for every year until 40 quarters are attained is now required. As an example, the system beginning in 1990 might give credit for one quarter per year for each year until 1990, and two quarters per year thereafter until 60 quarters is attained.

None of these latter changes would alter the social security system in any fundamental way. All involve extremely incremental adjustments which could be anticipated and planned for. Most correspond to the facts that as a people we are living longer, healthier, and more economically productive lives.

The choice for the long run is whether to begin to consider a major restructuring of social security or to meet the financial problems of the next century by means of a series of changes which do not alter the system in major ways. For either approach change should be initiated soon. We should not waste the advantage we have today of a long period of adjustment.

But the problems of the social security system should not be approached in isolation. The possibilities for change are perhaps improved if the entitlement programs are considered together as a system which has grown in an uncontrolled and undefined manner but which must now be reformed. The following principles should guide any such approach.

First, no gimmicks. For example, whenever social security issues are raised, the proposal to move social security out of the budget is inevitable. If the costs are inconvenient, why not ignore them? But income transfer costs are no more inconvenient than any other, and disguising these costs will solve neither these specific problems nor those of the overall budget. As a category. entitlements are a high proportion of GNP and the federal budget; they are growing rapidly; they are inextricably intertwined with general spending and tax policies. Hiding their costs will make our overall budgetary situation worse.

Second, the whole entitlement category should be approached as one program. a program which transfers income to those the nation defines as in need. In time common objectives, criteria, standards, and operating methods could be formulated; but, above all, a president should present a cross-cutting entitlement budget as part of his overall budget. Such a step would increase public understanding of entitlement spending; improve program cohesion; and facilitate control. In other words, the notion of a safety net which the Reagan administration broached and then abandoned should be pursued. But the idea must be treated as a serious proposition, not a one-time rhetorical gambit.

Third, some scope for year-to-year budgetary control should be built into these programs. Much has been said - in hyperbole - about indexation - its evils and its virtues. But in practical terms, both indexation and control must co-exist. Indexation will always be necessary but it need not mean the complete loss of control over the budget year to year. We should define a way to control indexation. For example, each year the President might be required to propose an indexation level to Congress - perhaps 60%, 80%, or 100% of a reformed consumer price index. The President's proposals would automatically go into effect unless Congress specifically rejected them.

Finally, concepts of finances - however inconvenient - should be extended to reform of the entitlement structure. For example, recipients of entitlements are not all poor.

for poor, too w. no place else to go? They'll end up being the only ones hit. Already being in AFDC. Double whammy?

Wrong

Program	% Below Poverty	% Above Poverty
Means Tested		
Public Assistance	57%	43%
Supplemental Security Income	34%	66%
Food Stamps	60%	40%
Medicaid	48%	52%
Non-Means Tested		
Social Security	10%	90%
Medicare	18%	82%
Ve Veterans Benefits	6%	94%
School Lunch	43%	57%

Moreover, predictably, programs whose beneficiaries are not poor are more easily protected than "poverty" programs. Food stamps and medicaid are more easily restrained than medicare and social security.

But in a time of budget restraints fairness requires that all contribute appropriately to meeting the constraint. Why, instead of reducing food stamps should we not tax social security above a certain income level; or ask higher medicare deductions from families with higher incomes.

We have long since passed the point where we could afford to retain programs of great expense which provide payments without consideration of need. For many who are not poor, social security represents an added and welcome financial bonus; but for many who are poor, social security provides the actual margin of survival. In a time of budget restraint, fairness requires that these payments be more carefully related to need, or that they they be taxed along with all other income.

Conclusion

Both today's budget crisis and tomorrow's prospects make control of the entitlement programs imperative. It is and will always be impossible to control the budget if 50% of it is left untouched. Moreover, it is possible to put together both an overall approach and a specific action list which humanely and sensitively adjusts the entitlements to budget realities.

20% of CPI - progressive [illegible]

But the approach and the list include no magic. There is no set of painless adjustments to be found if we wait long enough. The items on the list are already known and they all involve tax increases and relative reductions in benefits. And every item on the list is controversial.

Gunnes adds 80 less 2 years

Only a coalition of both major political parties, the Congress, and the President can overcome the politics of the entitlements. Otherwise, any individual effort to consider these programs will present an irresistible partisan target. Both parties should have an interest in joining together to put this issue behind them. Without control of these programs, there is no hope for a more general budgetary solution. The choice, therefore, is between moderate, sensible adjustments initiated now, on a bipartisan basis; or the costly impasse of continuing budgetary chaos.

file Budget

CENTER ON BUDGET AND POLICY PRIORITIES

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FAX NUMBER:	See above
FROM:	Bob Greenstein
REGARDING:	Budget Negotiations
DATE:	January 4, 1996
NUMBER OF PAGES: (including cover sheet)	7

Comments:

CENTER ON BUDGET AND POLICY PRIORITIES

To: Alice Rivlin
Laura Tyson
Gene Sperling
George Stephanopoulos
Melanne Verveer

From: Bob Greenstein

Subject: Budget Negotiations

Date: January 4, 1996

I'm concerned about where the budget negotiations may end up in three important low-income areas: food stamps, AFDC, and assistance for poor legal immigrants.

1. *Food Stamps*

I'm concerned about four issues here: the depth of the cuts; whether people will be terminated *without* being offered a work slot; the Republican "cap" on food stamp expenditures; and the food stamp block grant.

a) Depth of Cuts

The Administration started out with quite a high level of cuts, $19 billion. By contrast, the Coalition had $13.8 billion. The majority of the Administration's $19 billion in cuts are across-the-board cuts that affect working poor families, the elderly poor, and everyone else receiving food stamps. Other than saving money and showing it's possible to cut food stamp costs without resorting to a block grant, there isn't a strong policy rationale for these across-the-board reductions.

The Administration has now agreed to split the difference on food stamp cuts with the Republicans, raising the cuts from $19 billion to $22 billion. But as I understand it, the Republicans haven't given up anything significant in return, haven't agreed to come down to $22 billion, and are pushing for more.

- OMB and Republican staff have tentatively agreed upon a specific list of cuts totaling close to $22 billion. This list does *not* include the big additional savings that will result if adults aged 18 to 50 or 55 are

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Robert Greenstein, Executive Director

thrown off food stamps after several months *without being offered a work slot.* Republicans still are pushing for that.

- The $22 billion list also doesn't include the savings from a food stamp block grant if, unfortunately, that is ultimately accepted.

- And the $22 billion list does not include additional savings the Republicans want in the food stamp shelter deduction beyond the savings the Administration has indicated it can accept in this area.

I recommend that the Administration draw a firm line at $22 billion and refuse to go higher here. The $22 billion cut list tentatively agreed upon at the staff level includes $14 billion in across-the-board cuts that will take food assistance away from poor children, the elderly, the working poor, etc. With the majority of food stamp benefits going to households with gross incomes below *half* of the poverty line, these cuts will hit hard. $22 billion in reductions is more than enough.

b) Should People Be Terminated From Food Stamps Without Being Offered a Work Slot?

Few decisions the Administration faces will have as sharp an impact on both hunger and homelessness as this one. The fundamental principle ought to be maintained that indigent people aren't thrown off food stamps without giving them an opportunity to work. Give them a work slot and terminate their benefits if they do not work, but don't cut them off because there are no work slots. CBO says that nearly all of the Republican savings in this area come from terminating benefits from people who will work if given the opportunity but for whom no work opportunity would be provided.

Republican rhetoric that these people will simply find private sector jobs on their own is without foundation. This is a group of very low-skilled individuals, many of whom have various health or mental problems. (The problems aren't severe enough to qualify them for federal disability benefits, but the problems are significant nonetheless.) The University of Michigan conducted a major study of what happened to people in this age group when Michigan ended cash welfare aid for them. The study found few were able to find ongoing employment. Homelessness did increase. One reason homelessness didn't increase even more than it did was that these individuals could get food stamps and didn't have to use much of what limited cash income they had for food rather than rent. If we cut off their food stamps without offering them a work slot, homelessness is virtually certain to rise.

In addition, cutting off people who are willing to work without giving them an opportunity to work would represent perhaps the most fundamental breach of the food stamp program's basic mission in its 30-year history.

c) The Food Stamp Cap

The Republicans would place a cap on food stamp expenditures at the level that CBO forecasts the food stamp program will cost under the budget agreement. If costs would otherwise exceed the cap, across-the-board food stamp cuts would automatically be triggered. This proposal, along with the food stamp block grant, threatens the basic mission and purpose of the food stamp program.

- If there is a cap, the program is virtually certain to breach it. Some states are beginning to move to slash cash welfare benefits; for example, Governor Pataki has just proposed a 25 percent AFDC cut. When cash welfare benefits fall, families fall deeper into poverty and qualify for more food stamps. CBO's food stamp cost estimates don't assume welfare benefit cuts such as Pataki's. As a result, CBO's food stamp cost estimates are likely to be off, perhaps by billions.

- If AFDC if block-granted, states are likely to shift substantial sums from cash benefits to work programs, thereby reducing the income of cash assistance recipients. That will make the CBO food stamp cost estimates even farther off the mark and the proposed food stamp caps even more inadequate.

In short, the food stamp program would be extremely likely to bust the cap, with the result that deep, across-the-board food stamp cuts would be triggered on top of the $22 billion or more in food stamp cuts already in the budget package and on top of the likely reductions in cash welfare benefits for poor children and their families. The consequences would be grim. (It is true that the Republican cap would be adjusted up or down if food prices proved higher or lower than CBO has forecast and if caseload levels turned out to be higher or lower than the forecast. But there would be *no* adjustment whatsoever if food stamp costs rose because families were poorer than forecast, due to cuts in welfare benefit levels, erosion in wages for low-skilled jobs, or weakness in the economy that drove many employers to shift employees to part-time work schedules.)

Furthermore, Congress would probably not be able to raise the cap if it proved insufficient and across-the-board cuts loomed. Legislation to raise the cap would be subject to "Pay-As-You-Go" rules and would have to be offset *with a tax increase or a cut in another entitlement like Medicare or Medicaid.* If there is a cap and it proves insufficient, the President will be placed in an impossible position — he will have to choose between ordering across-the-board food stamp benefit cuts and proposing to raise taxes or cut benefits in another entitlement instead.

d) The Food Stamp Block Grant

This is equally fundamental. The food stamp program is unique; it is the ultimate safety net because it is available to all of the poor, regardless of whether they are old, young, in a two-parent family, in a one-parent family, or in what state they live. It is the national benefit floor under poor children, as well as the one safety net for all Americans regardless of age or family type. It expands with recessions and contracts with recoveries. Its benefits rise when income declines (it provides the largest benefits to the most destitute), and its benefits shrink when family income grows. If cuts are made in other programs for the poor and reduce the disposable income that families have, the food stamp program helps ameliorate the blow.

The food stamp block grant — along with the proposed food stamp cap and the Republican proposal to terminate adults who are willing to work but can't find a job or a work slot — violate these basic principles of the food stamp program. Under the block grant, various categories of poor children and families could be made ineligible despite their need. Moreover, block grant funding would fail to respond to recessions, state population growth, or even increases in food costs. While the Republicans propose that the food stamp block grant be a state option, it's hard to imagine how the food stamp program can be politically viable over the long term if it is available in some states and not in others. When budget cuts are needed in the future, it will be too easy for Members of Congress from food stamp block-grant states to vote to cut benefits under the national food stamp program, since those cuts won't affect their states.

2. AFDC

Two separate issues often get treated as though they are the same issue — whether states should have more flexibility in running welfare programs and whether AFDC should be block-granted. As you know, it's possible to accord states sweeping flexibility without changing AFDC from an entitlement to a block grant. If that were done, governors would "have their cake and eat it too": they'd get the flexibility they seek while still receiving increased federal matching funds whenever need rose in a state due to a recession, increased population, eroding wages, etc.

Settling the AFDC issue along these lines would be extremely important. In addition to failing to respond to increases in need, the Republican block grant would create powerful incentives for states to scale back assistance for needy families. A "race to the bottom" would be virtually inevitable.

- For the first time in the program's history, states would be able to withdraw substantial amounts of state dollars without losing any federal matching funds. If states spent only what was required to receive their full federal block grant allocation, state spending between 1997 and 2002 would *fall $28 billion below what states would have spent under current law.* (These figures are based on CBO estimates.) In addition, states could transfer large amounts of block grant dollars to the Social Services Block Grant with its broad and not always well-targeted array of services.

- While the Republican talk on work is tough, the block grant is woefully short of resources for expanded work programs. If states were to meet the bill's ambitious work requirements, they would be pressed to cut back sharply on cash aid for poor children to finance the work programs. No Democratic bill pitted resources for work programs against basic income support for poor children.

- Under the Republican block grant, there would be no assurance that a family would receive assistance when in need. There are no provisions requiring states to develop eligibility rules or even to follow their own rules. Furthermore, in various ways, the block grant creates fiscal incentives for states to cut back on aid to poor children.

- Once a state's federal block grant funds are exhausted, a state would bear *100 percent* of the benefit costs of each new applicant. Today, states bear only 20 percent to 50 percent of the costs of each new applicant. If states must pay 100 percent of the cost of each new family, states will be far more reluctant to maintain benefit levels higher than those in neighboring states and may attempt to set their benefit levels below those of their neighbors.

In short, the risks of what an Urban Institute paper calls "spiraling parsimony" are high under an AFDC block grant. The consequences for child poverty could be tragic. According sweeping flexibility to states while maintaining an entitlement structure thus is very important. Such a package could feature an array of welfare reform measures that enjoy broad public support, including time limits and expanded work requirements.

3. Legal Immigrants

Last but not least is the issue of legal immigrants. It is difficult to justify making poor legal immigrants who have no sponsors — or whose sponsors are deceased or impoverished — ineligible for aid. It also is difficult to justify barring Medicaid for categories of legal immigrants who are permanent U.S. residents; the cost of private health insurance can be prohibitive, particularly for an immigrant who is elderly or disabled.

In some respects, the reconciliation and welfare conference reports are even more draconian in this area than was the House welfare bill of last spring. The House welfare bill exempted from its benefit prohibitions those legal immigrants who are at least 75 years old or too disabled to naturalize. But the conference report dropped these exemptions and would deny SSI and food stamps even to these elderly and disabled people. (In fact, the conference report would even deny WIC benefits to some categories of pregnant immigrants, despite the fact that doing so would increase the risk that children whom these pregnant women would bear — who would be U.S. citizens from birth — would be born at a low birthweight and consequently require expensive health care at taxpayer expense.)

Political Concerns

I'm concerned about the political consequences of acquiescing in severe immigrant cuts. This is likely to enrage important parts of the Hispanic and Asian communities. That could be a particular problem in California, where voter turn-out in Democratic-leaning communities will be important.

I'm also concerned that accepting overly deep food stamp cuts could increase political apathy and lessen the Administration's support in the black community. Census data show that *46 percent of black children receive food stamps at some point during the year*. Food stamps are heavily used by black working poor families and the black elderly, not just by those on public assistance, and they pump billions of dollars into black inner-city economies that are already fragile.

Food Stamp Cuts Would Affect Very Poor Families and Individuals

The recently passed conference agreement on the welfare bill includes nearly $26 billion in food stamp cuts. About $12 billion of the cuts result from across-the-board cuts that would affect families with children, the working poor, and the elderly and disabled alike. All black food stamp recipients would be affected by these across-the-board cuts.

In addition to these across-the-board cuts, many black households would see their food stamps cut as a result of cuts aimed on specific types of households. One of the principal such reductions is a change in food stamp law aimed primarily at poor families with children. The conference bill repeals a provision of current law scheduled to take effect shortly under which families with children that pay more than half of their income for housing will receive a larger food stamp allotment in recognition of the fact that they have little money left to purchase food after paying rent and utilities. This provision of current law would extend to poor families with children the same treatment of high housing costs that has been applied to elderly households since 1979.

Repealing this provision would result in benefit cuts for roughly 650,000 black food stamp households. Stated another way, some 1.8 million black individuals would see their nutrition assistance cut as a result of this provision.

The food stamp provisions of the conference report would also affect adults between the ages of 18 and 50 with particular severity. Unless they were disabled or caring for a minor child, such individuals would be cut off the program after four months if they were unemployed and not enrolled in a work or training program, regardless of whether a work or training slot was available. CBO estimates the work and training slots that the bill funds would be sufficient to cover only a small fraction of these individuals and that 700,000 people a month who are willing to work but cannot find jobs or workfare slots would be denied food stamp benefits as a result.

Census data indicate that this provision would affect roughly 300,000 black food stamp recipients.

President Clinton's Reasons for Vetoing the Republican Budget:

82 Selected Issues

December 6, 1995
(revised)

President Clinton's Reasons for Vetoing the Republican Budget:

82 Selected Issues

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SUMMARY

The Republican budget makes extreme, unnecessary cuts in Medicare and Medicaid, education, and environmental protection to pay for excessive tax cuts, largely for the wealthiest in our society. President Clinton believes we must balance the budget in a way that is consistent with American values: honoring our commitment to our seniors, helping working families, providing a better life for our children.

Following are the most extreme elements of the Republican budget.

HEALTH CARE. The bill contains $433 billion in Medicare and Medicaid cuts, four times the largest ever, forcing many rural and urban hospitals to close and reducing quality of care for all Americans.

MEDICARE. The Republican budget would turn Medicare into a second-class health care program, slowing annual per capita spend growth to 5.5%, compared to 7.1% for the private sector. It raises premiums by $264 for an elderly couple in 1996 alone and nearly doubles premiums by 2002.

MEDICARE FOR POOR ELDERLY AND DISABLED. The bill eliminates the requirement that Medicaid pay premiums, deductibles, and copays for 5.4 million poor elderly and disabled people, disproportionately hurting older women.

MEDICAID. The bill limits annual per capita Medicaid growth to 1.6%, compared to 7.1% for the private sector, denying coverage for nearly 8 million people by 2002. Its block grant eliminates the national guarantee of defined, meaningful coverage for the sick, elderly, poor, pregnant women, blind, and disabled.

MEDICAID FOR CHILDREN AND ELDERLY. The bill could deny coverage to 3.8 million children; 330,000 elderly could be denied nursing home care.

NURSING HOMES. The bill would repeal key enforcement measures that protect nursing home residents -- 75% of whom are women -- from abuses and inadequate treatment.

MASSIVE TAX CUTS. The bill provides $245 billion in tax cuts. The tax cuts explode to $400 billion over ten years because key provisions are written to expand dramatically after seven years.

UNFAIR TAX BREAKS. The bill takes from the poor to give to the wealthy. According to the Treasury Department, families in the lowest 20% of income distribution as a group (and those with incomes under $30,000, according to Joint Tax Committee), face a net tax increase. Nearly half of the tax cuts go to the top 12% -- those with incomes above $100,000. The top 1% -- those with incomes over $349,000 -- would receive an $8,500 a year tax cut. Retroactive capital gains cuts provide a $13 billion windfall to those who have already sold their assets.

TAX INCREASE ON WORKING FAMILIES. The repeal of the Earned Income Tax Credit hits 12.6 million working families (14.5 million children) with an average $332 tax increase in 1996.

BREAKS FOR CORPORATIONS. The bill permits corporations to raid pension funds, risking pensions for millions of workers, and allows many profitable corporations to pay no income tax.

CHILDREN. The bill cuts benefits for disabled children and school lunch and other nutrition benefits.

EDUCATION. The bill provides a gift to special interests by denying direct college loan opportunities for 2.5 million students in 1,350 colleges and universities. It would lead to $30 billion in education cuts over seven years, denying opportunities to millions of young Americans, including cuts in Head Start, Safe and Drug-Free Schools, basic and advanced skills for disadvantaged students, and Pell Grant scholarships. In addition, Goals 2000 reforms and the AmeriCorps community service program would be repealed.

ENVIRONMENT. The bill would open to oil drilling the rare, pristine Arctic National Wildlife Refuge, and its cuts would lead to massive reductions in enforcement of clean air and drinking water laws and dramatically slow down clean-up of toxic waste dumps.

COMBINED CUTS TO MEDICARE AND MEDICAID

1. MAGNITUDE OF $433 BILLION MEDICARE AND MEDICAID CUTS:

The Republican budget cuts Medicare and Medicaid combined by $433 billion over 7 years -- four times greater than anything ever enacted by *any* Republican or Democratic President -- to fund a tax cut for the wealthy. These cuts will deny health care coverage for nearly 8 million people by 2002, threaten urban and rural hospitals with closure, reduce the quality of care for everyone, and increase health care costs for the privately insured through cost shifting.

- ***$433 Billion Combined Medicare and Medicaid Cuts Could Force Many Rural and Urban Hospitals to Close.***

    - Hospitals will receive $1,025 less per admission on average than they would under current law, a drop of roughly 13%.

    - According to the American Hospital Association, nearly 700 hospitals *derive two-thirds or more* of their net patient revenues from Medicare and Medicaid. The combined Medicare and Medicaid cuts could force many of these nearly 700 vulnerable hospitals to close.

        - Over half of these vulnerable hospitals are rural, and 20% are in the inner city. Their closure will deny access to health care for many people in rural and urban communities across America.

        - With each hospital closure comes job lose, since hospitals are often one of the largest employers in rural communities.

- ***$433 Billion Medicare and Medicaid Cuts Will Reduce the Quality of Care for Everyone.***

    - The American Hospital Association, the Catholic Health Association, the National Association of Public Hospitals, and over 40 state hospital associations say: "the reductions in the conference report will jeopardize the ability of hospitals and health systems to deliver quality care, not just to those who rely on Medicare and Medicaid, but to all Americans."

- ***$433 Billion Medicare and Medicaid Cuts Will Increase Health Care Costs for the Privately Insured By Cost Shifting Billions of Dollars.***

    - A new analysis by Lewin-VHI for the National Leadership Coalition on Health Care concluded that the Medicare and Medicaid cuts in the reconciliation bill could lead doctors and hospitals to raise their fees on privately insured patients by *at least $85 billion* over 7 years through cost-shifting. Cost shifting is the process by which health care providers charge privately insured people more in order to make up for losses from serving Medicare and Medicaid beneficiaries and the uninsured.

    - $67 billion of the $85 billion in increased costs would be passed on to workers by employers in the form of lost wages and higher health care premiums. This cost shifting would effectively reduce wage increases for lower income workers by 10%.

    - 60% of the shift would be concentrated on the middle class -- families with incomes between $20,000 and $75,000.

MEDICARE

2. <u>CUTS MEDICARE WELL BELOW PRIVATE SECTOR RATES</u>:

- ***Their $270 Billion Cut Will Turn Medicare Into a Second Class Health Care Program.***

- The Republican budget reduces Medicare spending growth per beneficiary far below projected private sector growth rate. Based on CBO data, private sector per capita health care spending is projected to increase 7.1% per year over the next 7 years, but the Republican budget reduces Medicare spending growth per beneficiary to 5.5%, on average.

- Federal Medicare spending per beneficiary would be $1,700 less than under current law in 2002.

3. <u>SLASHES FUNDING FOR POOR ELDERLY AND DISABLED MEDICARE BENEFICIARIES</u>:

- Under current law, Medicaid pays all Medicare premiums, coinsurance, and deductibles for people below 100% of poverty (known as QMBs) and premiums for people with incomes between 100% and 120% of poverty.

- 5.4 million poor elderly and disabled people currently have their Medicare cost sharing covered by Medicaid. This assistance ensures that they can afford Medicare.

- ***Does Not Set-Aside Any Funds For Their Copayments and Deductibles.*** The Republican budget completely eliminates the requirement that states cover coinsurance and deductibles for poor elderly and disabled people, and does not set aside any money for this purpose.

  - More than 5 million elderly and disabled people would immediately lose their guarantee of assistance with copayments and deductibles.

- ***Sets Aside Less Than Half Of What Is Needed For Their Premiums.*** While Republicans claim to cover poor elderly and disabled peoples' premiums, they set-aside *less than half* of the money needed to cover their premiums by 2002.

  - 950,000 Could Lose Assistance With Their Premiums -- Just When Premiums Are Increased. HHS estimates that as many as 950,000 poor elderly and disabled people could lose funding for their Medicare premiums in 2002 -- at the same time that the Republican plan increases these premiums.

- ***Could Force The Poor To Leave Fee-For-Service Plans.*** Without assistance with premiums, copayments, and deductibles, poor Medicare beneficiaries may be forced to leave their fee-for-service plan and enroll in a managed care plan that does not require cost-sharing -- if one exists in their area.

4. ALLOWS DOCTORS TO OVERCHARGE:

- ***Allows Doctors in new Medicare plans to "Balance Bill" or Charge Medicare Beneficiaries Above the Medicare Payment Rates.***

- Without protections from balance billing, beneficiaries in private fee-for-service plans or high deductible/Medical Savings Account plans would be subject to higher charges.

- The opportunity to balance bill in the new Medicare plans will give doctors incentives to leave the traditional Medicare fee-for-service program, forcing many patients to change their doctor or leave the traditional fee-for-service program.

5. INCREASES MEDICARE PREMIUMS:

- ***Increases Medicare Premiums and Burdens Older and Disabled Americans -- Just to Pay for a Tax Cut for the Wealthy.***

- The Republican budget increases premiums from 25% of Part B program costs to 31.5%. In 1996 alone, this change will increase costs for elderly couples by $264. These higher costs will place a large financial burden on Medicare beneficiaries -- three-quarters of whom have incomes below $25,000 -- and will disproportionately burden older women.

- Since 1984, the Part B premium has been set so as to finance 25% of program costs.

- In an effort to protect beneficiaries from excessive increases in Medicare premiums, premiums were set at specific dollar amounts for 1991-1995, rather than at 25% of program costs. The 1995 premium was set at $46.10 per month. As a result of the difficulties in estimating program costs far in advance, this premium actually financed 31.5% of 1995 program costs, even though Congress never intended to raise premiums above 25% of program costs.

- In OBRA '93, Congress returned to the traditional approach of setting premiums at 25% of program costs rather than writing fixed monthly premium dollar levels into the statute. Thus, OBRA '93 set premiums at 25% of program costs for 1996 through 1998. In 1996, 25% of program costs will amount to $42.50 a month.

- The Republican budget would set premiums at 31.5% of program costs for the next seven years. President Clinton's plan maintains the current policy and permanently sets premiums at 25% of program costs.

- Among the 36 million Medicare recipients who will face higher premiums are 8.8 million veterans -- one-third of all veterans in the United States -- who will be forced to pay higher out-of-pocket costs for lower quality care.

6. CONSTRAINS SPENDING IN TRADITIONAL MEDICARE MORE THAN IN NEW PLANS:

- The Republican plan disadvantages the traditional Medicare fee-for-service program compared to the new MedicarePlus plans by initially constraining spending in the fee-for-service program far more than in the new plans.

- In 1996 alone, the Republican plan allows spending in the new plans to increase at an average per capita rate of 8.0% -- one third higher than the increase for traditional Medicare.

- This uneven treatment of MedicarePlus plans and traditional Medicare will harm quality and create incentives for doctors to leave traditional Medicare.

7. MEDICAL SAVINGS ACCOUNTS:

- The Republican Medicare plan allows beneficiaries to withdraw a set amount of money from the Medicare program to buy health insurance with a high deductible. Individuals may deposit any money left over after the purchase into a tax-preferred medical savings account (MSA).

- MSAs tend to attract only the healthiest individuals, who expect few medical expenses in the coming year and who typically cost the Medicare program little.

- To the extent that MSA vouchers are set at a level that exceeds the cost of these healthy beneficiaries under the current Medicare system, MSAs will increase spending on healthy beneficiaries.

- In fact, CBO estimates that MSAs will raise Medicare costs by nearly $5 billion over 7 years. A Lewin-VHI study concluded that MSAs would cost the Medicare system $15-$20 billion over 7 years.

- Since the Republican plan caps Medicare spending, MSA costs would have to be offset by further cuts in services for the less healthy beneficiaries remaining in the traditional fee-for-service plans.

8. LOCKS BENEFICIARIES INTO PLANS:

- Under current law, beneficiaries are permitted to leave a managed care plan at any time, with termination effective as of the first of the first month following the request to leave.

- Under the Republican budget, beneficiaries who enroll in one of the new MedicarePlus plans, including managed care plans, provider-sponsored organizations, or a high-deductible medical savings account plan, would generally be locked into that plan for a year. In general, they could not leave the program except during the annual open enrollment period.

- The President's proposal retains current law and allows beneficiaries to leave at any time.

9. INCREASES COSTS FOR BENEFICIARIES WITHOUT EXPANDING BENEFITS OR PREVENTION:

- The Republican budget increases beneficiary costs while only adding one new benefit: coverage of oral nonsteroidal antiestrogen for the treatment of breast cancer.

- Currently, Medicare does not cover the array of preventive benefits now offered by many private plans, particularly managed care plans. These preventative benefits can both increase beneficiaries' health and reduce costs at the same time.

- President Clinton's proposal updates the Medicare benefit package to make it more comparable to private sector benefit packages, including:

    - ***Mammography.*** The President's proposal eliminates copayments for mammography services and provides annual screening mammograms to help detect breast cancer.

    - ***Certain Colorectal Screening.*** Early detection of cancers and other serious conditions can result in less costly treatment, enhanced quality of life, and, in some cases, a greater likelihood of cure. The President's proposal provides coverage for colorectal screening.

    - ***Preventive Injections.*** The President's proposal would increase payments for certain preventive injections provided in physician offices which will encourage providers to immunize beneficiaries.

    - ***Respite Benefit for Families of People with Alzheimer's.*** The President's plan creates a Medicare respite benefit for families of beneficiaries with Alzheimer's disease or other irreversible dementia, covering up to 32 hours of care per beneficiary per year, administered through home health agencies or other entities. Services could be provided in the home or in a day care setting.

MEDICAID

10. <u>MAGNITUDE OF $163 BILLION MEDICAID CUTS</u>: Lowering average annual spending growth per recipient to 1.6% could cause millions to lose coverage.

- The Republican budget cuts federal support for Medicaid by an unprecedented $163 billion -- over ten times anything ever enacted by *any* Republican or Democratic President.

- The Republican plan achieves these savings by capping overall spending. This means that spending growth per beneficiary would fall from the current 7.0 percent to 1.6 percent annually -- far below the rate of inflation.

- States cannot sustain coverage when federal funds are increasing at only 1.6 percent per beneficiary. States will be forced reduce benefits and/or provider payments and eliminate coverage for millions of people on Medicaid.

11. <u>MEDICAID CUTS COULD MORE THAN DOUBLE IF STATES REDUCE THEIR SPENDING</u>:

- ***The $163 billion reflects only the federal cuts.*** Yet Medicaid is a federal-state plan, and if states only contribute the amounts that the federal government will match and provide no additional funding, the Center on Budget and Policy Priorities estimated the total reduction in federal and state Medicaid funds would *exceed $400 billion over seven years,* compared with current law.

- Whatever the exact amount, given the other cuts in federal assistance to states, the total federal and state Medicaid cuts are likely to total far beyond $163 billion.

12. <u>ENDS NATIONAL GUARANTEE OF COVERAGE</u>:

- The Republican plan repeals the Medicaid Program, replacing it with a "block grant."

- The Republican budget completely eliminates Medicaid's guarantee of defined, meaningful coverage for Americans who are sick, elderly, poor, blind or disabled in other ways.

- Because the block grant constrains spending growth per beneficiary to 1.6% per year, providing 28% less funding than under current law by 2002, states will be forced to significantly reduce Medicaid eligibility and benefits.

- Under current law, all states are required to cover a minimum set of services, including hospital, physician, and nursing home services. States have the option of covering an additional 31 services, including prescription drugs, hospice care, and personal care services.

- States could eliminate almost any benefit currently covered by Medicaid. The <u>only</u> required services would be immunizations and limited family planning.

13. **<u>NO GUARANTEE OF EVEN MINIMAL HEALTH CARE COVERAGE FOR POOR CHILDREN UNDER THE AGE OF 13, PREGNANT WOMEN, AND PEOPLE WITH DISABILITIES</u>:**

- While the proposal includes language calling for States to provide Medigrant services to poor children under 13, pregnant women, and people with disabilities, States could determine the level of benefits provided and define the eligible disabilities. Financially strapped States could satisfy this requirement with <u>de minimis</u> coverage, which could mean millions fewer people receiving a meaningful benefits package.

- The President believes it is wrong to change the laws in ways that could lead to less coverage for poor children, pregnant women, and people with disabilities.

14. **<u>DEEP CUTS PLUS ELIMINATION OF GUARANTEE COULD LEAD TO MILLIONS GETTING LESS COVERAGE OR NO COVERAGE</u>:**

With Federal Medicaid funding per beneficiary growing on average at one-fourth the rate of private health insurance spending per person, based on Congressional Budget Office data, states cannot continue to guarantee coverage.

- Of the 36 million Medicaid recipients, more than 18 million are children. Medicaid covers one out of every five children in the nation.

- Another 6 million of the current Medicaid recipients are disabled. Medicaid functions as the primary insurer for many people with disabilities, since private insurance is generally not affordable for people with pre-existing conditions.

- Sixty percent of all Medicaid beneficiaries are women.

- About 1/3 of all babies born in the United States are covered by Medicaid.

- Over 90 percent of children with AIDS are covered by Medicaid.

<u>Loss of Medicaid Coverage Under Republican Plan</u>:

- The reduction in Federal support under the Republican plan could force States to deny coverage for nearly 8 million Americans in 2002 alone, according to HHS estimates.

  These nearly 8 million people include:

  - 3.8 million children
  - 1.3 million people with disabilities
  - 850,000 elderly
  - 330,000 nursing home residents -- 75% of them likely to be women
  - 150,000 veterans

15. <u>WEAKENS QUALITY PROTECTIONS FOR NURSING HOME RESIDENTS AGAINST ABUSE AND NEGLIGENCE</u>:

- ***Current law:*** The landmark 1987 nursing home reform law, approved with bi-partisan support during the Reagan Administration, sought to address at times deplorable treatment in nursing homes, including unjustified physical restraints, and gross negligence in caring for nursing home residents, by establishing the Federal quality standards in place today. Prior to the OBRA '87 reforms, the Institute of Medicine reported that all States had some facilities with serious deficiencies in nursing home quality of care.

- ***Progress:*** Since the 1987 reforms were implemented, nursing home quality has improved dramatically. The use of physical restraints has declined 25%; dehydration has declined 50%; hospitalization rates have declined 31% (Research Triangle Institute; HCFA).

- ***Federal Enforcement and Key Protections Would be Repealed:*** The Republican bill takes away key federal protections and enforcement. While States may want to maintain these guarantees, inadequate resources could lead them to fail to set and enforce quality standards that protect elderly and disabled people in nursing homes.

  - Repeals federal enforcement of nursing home standards. States could turn over their survey and enforcement responsibilities to private accreditation organizations with no Federal review, thereby reducing accountability and increasing variations in quality and enforcement.

  - Nursing homes would no longer be required to optimize each resident's health and well-being. The bill repeals the current requirement that nursing homes provide services to "attain or maintain the highest practicable physical, mental, and psychosocial well being of each resident." Thus, residents could be denied skilled nursing and rehabilitative services necessary to improve their ability to function.

  - Residents would no longer be guaranteed the same comprehensive assessment of their health and functional status now required nationally.

  - Uniform data collection would not be required, making monitoring more difficult.

  - Federal training requirements for hands-on caregivers would be eliminated; each State could determine who would be trained and how.

16. NO ADEQUATE QUALITY OF CARE FOR MEDICAID MANAGED CARE PLANS:

- Unlike, the explicit protections in current law for residents of nursing homes and institutions caring for mentally retarded individuals, the current Federal Medicaid contracting rules for Medicaid managed care plans use proxy measures -- such as enrollment composition requirements (the "75/25 rule") -- that are vaguely, at best, related to quality of care for Medicaid beneficiaries who are enrolled in managed care systems.

- The Conference Agreement includes no quality of care standards for managed care systems -- even though 23% of all Medicaid enrollees received their health care through managed care programs in 1994, and an even greater proportion is enrolled in managed care in 1995.

    - States would not be required to establish or enforce quality standards for capitated managed care plans.

    - The Federal government would have no authority to enforce managed care access standards or quality requirements.

- The Administration's proposal would ensure quality of care for managed care enrollees and nursing home residents by replacing out-dated statutory rules with real quality of care protections for managed care enrollees -- quality improvement programs that have been field-tested in several states and were developed with extensive industry participation.

17. ELIMINATES QUALITY STANDARDS FOR FACILITIES THAT SERVE MENTALLY ILL AND MENTALLY RETARDED INDIVIDUALS:

- Federal law calls for explicit-outcome oriented quality of care protections for mentally ill and mentally retarded Medicaid beneficiaries who live in institutions.

- While the Republican Medicaid proposal maintains some federal protections for nursing homes, it *completely eliminates* the current statute that includes explicit, outcome-oriented quality of care protections for nursing home residents and mentally ill and mentally retarded beneficiaries who live in institutions.

18. WEAKENS PROTECTIONS AGAINST SPOUSAL IMPOVERISHMENT:

- The Republican budget undermines protections against spousal impoverishment that were signed into law by President Reagan in 1988. Since the law went into effect, it has protected about 450,000 spouses of nursing home residents. Most of these spouses are women.

- The Republican budget leaves it entirely up to States to determine which persons in institutions receive Medigrant assistance. Individuals could be denied coverage for long-term care services altogether. Spouses of individuals denied coverage would receive no protection from the "spousal impoverishment" provisions. Because the Republican budget repeals the guarantee of nursing home coverage, it also effectively eliminates the guarantee of protection from spousal impoverishment.

- The Republican budget also repeals the right of individuals to enforce spousal impoverishment protections in court when they believe they have been wrongfully denied, making the protections unenforceable.

19. ELIMINATES FINANCIAL PROTECTIONS -- PUTS MEDICAID BENEFICIARIES' HOMES AND FAMILY FARMS AT RISK:

- Under the Republican budget, the sick could be forced to sell their homes, family farm, car, and all their savings in order to qualify for Medicaid. The Republican proposal repeals all Federal laws protecting a minimum level of income and assets (such as the family home or farm) in determining Medicaid eligibility.

    - It allows States to count the value of one's home or family farm in determining Medicaid eligibility.

- People whom States define as no longer "poor enough" to qualify for medical assistance would be faced with paying all their medical costs themselves, or seeking help from relatives or charity.

- In the worst cases, families would have to mortgage or sell their homes to be able to pay for care, or elderly people needing long-term care would have no choice but to turn to their children for help.

- Nursing facilities could require additional payments from residents or their families in order to be admitted, or in order to continue living in the facility.

- The Republican Medicaid plan would remove all restrictions on how large a share of the costs of medical care States can require from eligible individuals, other than children and pregnant women.

- Cuts in the scope of the nursing home benefits could mean that families of poor patients will have to pay for services such as personal hygiene, laundry, or various therapies, that States now pay.

20. REPEALS REQUIREMENT THAT ALL COMMUNITIES IN A STATE RECEIVE COMPARABLE BENEFITS AND HURTS URBAN AREAS:

- The Republican Medicaid plan eliminates all requirements that comparable services be provided across the different geographic areas of a State. Thus, people in politically weak communities could receive fewer benefits than those in more powerful communities.

- Approximately 75% of Medicaid recipients live in cities. Assuming a proportional allocation of the $163 billion in Republican cuts, Medicaid spending in urban areas will drop by $122 billion.

- The Republican budget could deny Medicaid coverage to 6 million people living in urban areas, according to HHS, including:

    - Almost 3 million urban children
    - 975,000 urban people with disabilities
    - 650,000 urban elderly

21. CUTS WILL HURT VETERANS:

- More than 600,000 veterans currently depend on Medicaid for their health care.

- The Republican Medicaid cuts could deny 150,000 veterans Medicaid coverage in 2002 alone. Most could not afford private health insurance, leaving many veterans without any health care coverage at all.

- The Republican budget also doubles the copayment that veterans must pay for prescription drugs for non-service connected conditions.

- It also restricts the Secretary's ability to waive the copayment for veterans who cannot pay.

TAXES

22. <u>THE SIZE OF THE TAX CUT, WHICH EXPLODES OUTSIDE THE BUDGET WINDOW, CANNOT BE JUSTIFIED</u>:

- At a time when we are working to balance the budget, the "Contract" tax cuts are too costly, forcing excessive cuts in Medicare, Medicaid, education, technology, and the environment, as well as the Earned Income Tax Credit.

- Over 7 years, these tax cut provisions, including capital gains cuts, estate tax cuts, and Individual Retirement Account provisions, cost $258 billion. Moreover, the cost of these tax provisions, particularly those for the most affluent, is designed to explode outside the 7-year budge window -- to more than $400 billion over 10 years.

23. <u>IT IS WRONG TO SINGLE OUT LOW AND MODERATE-INCOME WORKING FAMILIES EARNING UNDER $30,000 A YEAR FOR A SPECIAL TAX INCREASE</u>:

- The Republican budget raises income taxes on low and moderate income working families by $31 billion through cuts to the Earned Income Tax Credit (EITC), a provision that President Ronald Reagan called "the best anti-poverty, the best pro-family, the best job creation measure to come out of the Congress."

- President Clinton expanded the EITC to move families from welfare to work and to help ensure that parents who work full-time do not have to raise their children in poverty.

  - Nearly half of all EITC recipients with children are female heads of households who choose to work rather than rely on welfare.

- Under the Republican plan, 12.6 million working Americans with 14.5 million children would lose, on average, $332 of the EITC in 1996. Moreover, even after accounting for the fully phased-in Republican tax cuts, about 7.7 million families who earn under $30,000 a year would face an average net tax increase in 1996 of $318 per family under their plan.

- On average, families in the lowest 20% of the income distribution would face a net income tax *increase,* not a tax cut, under their plan.

24. TAX CUTS ARE TARGETED TOO HEAVILY TO BENEFIT THE WEALTHIEST TAXPAYERS, AND NOT ENOUGH ON HELPING MIDDLE CLASS FAMILIES:

- At a time when we are all working to balance the budget, any tax relief must be focused on middle income Americans.

- The Republican bill gives nearly half the tax benefits to the top 12% of families with incomes of $100,000 or more. The highest income 1% of families, those with incomes over $349,000, would receive an average annual tax break of almost $8,500 per family.

- Their bill provides $13 billion in retroactive capital gains relief, a huge windfall for past investments, with no conceivable economic purpose. This windfall cannot be justified in light of cuts on working families and the poor.

- Overall, Republicans provide capital gains tax cuts costing $47 billion over 7 years and $77 billion over 10 years, cuts that overwhelmingly benefit the wealthy. In fact, 75% of the benefit of the capital gains cuts go to the wealthiest 12% of households, who have incomes over $100,000 a year.

25. SPECIAL INTEREST TAX LOOPHOLES:

- The American people elected this Congress and this President to balance the budget and move the country forward, not to provide special tax breaks for special interests.

- The Republican budget contains dozens of tax breaks for particular taxpayers and special interests, costing the rest of American taxpayers more than $3 billion over 7 years. These special-interest provisions, both large and small, are designed to benefit, among others:

  - multinational corporations that stockpile assets overseas,
  - the airline industry,
  - certain coal companies,
  - real estate developers,
  - insurance companies,
  - certain convenience stores,
  - newspaper companies, and
  - certain pharmaceutical companies with operations in Puerto Rico.

- These special-interest favors for the well-connected are inappropriate, especially since this budget *increases* taxes for millions of working families. These special interest provisions have little or nothing to do with stimulating the economy or creating new jobs. Now is the time to *close* loopholes and special interest provisions, not open up new ones.

26. <u>ALLOWS PROFITABLE CORPORATIONS TO PAY NO INCOME TAX, WHILE MILLIONS OF WORKERS PAY THEIR FAIR SHARE</u>:

- This Administration is committed to simplifying the Alternative Minimum Tax (AMT), without compromising fairness. The Republican budget goes too far.

- Under the Republican budget, some profitable corporations would be able to pay little or no income tax, at a cost to the rest of America's taxpayers of $15 billion over 7 years and $18 billion over 10 years.

- The Republican proposal makes the tax code *more complex,* not less, and rewards investments that are seven years old.

27. <u>A $90,000 PER ESTATE TAX CUT CANNOT BE JUSTIFIED</u>:

- We ought to help farmers and small businesses whose heirs want to continue running the family business, but we should not provide tax breaks to the wealthiest estates at high cost when we are trying to balance the budget.

- The Republican budget would give an average of $90,000 in estate tax relief to the wealthiest 1% of decedents owing estate tax each year -- about 30,000 wealthy estates -- costing $13 billion over 7 years and $27 billion over 10 years.

- Only the wealthiest 1% of taxpayers who die pay any estate tax. An estate that could take full advantage of the proposed changes could save over $1 million in taxes.

- Heirs who want to continue to run their family farm or small business should not be forced to liquidate in order to pay estate taxes, but the Republican budget goes way too far.

28. <u>WEALTHY AMERICANS SHOULD NOT BE ABLE TO AVOID PAYING U.S. TAX ON THEIR GAINS BY RENOUNCING THEIR U.S. CITIZENSHIP</u>:

- Wealthy Americans who seek to avoid their taxes by renouncing their citizenship should pay the same tax on income accrued while they were subject to U.S. tax laws that those who remain will pay.

- The Republican budget effectively leaves open a loophole for expatriates. Their provision would reward tax avoiders who are willing to wait 10 years before realizing gains; it rewards those who invest in foreign assets; and it makes enforcement very difficult.

29. **MULTINATIONAL CORPORATIONS SHOULD NOT BE ABLE TO AVOID PAYING THEIR FAIR SHARE OF INCOME TAXES BY SHELTERING PASSIVE ASSETS IN OFFSHORE TAX HAVENS:**

- This Administration put in place a new rule in 1993 to reduce the incentive for multinational companies to stockpile passive assets in excess of reasonable business needs, primarily to avoid taxes, not to invest, grow, and compete.

- The Republican bill repeals this provision, enhancing the incentive for these companies to move capital overseas and to keep their profits in passive assets there.

30. **ALL AMERICANS WHO WORK HARD AND PLAY BY THE RULES OUGHT TO BE ABLE TO COUNT ON THEIR PENSIONS WHEN THEY RETIRE:**

- **The Republican budget gives employers the green light to raid their employees' pension funds.**

    - During the 1980s, corporations removed more than $20 billion from employee pension plans, often to fund corporate takeovers, until Congress effectively put an end to this. And just last year, we took further steps to improve pension funding and reduce taxpayer risk through the Administration's 1994 Retirement Protection Act.

    - Now, the Republican budget permits employers to transfer without any excise tax, pension assets in excess of 125% of a pension plan's "termination liability" to pay certain employee benefits. In effect, this would allow companies to use pension assets to free up other corporate funds for other purposes.

    - The Republican proposal would increase risk to pensioners and to the Pension Benefit Guaranty Corporation, and ultimately to America's taxpayers. A plan's financial condition can change rapidly as interest rates and markets fluctuate. Today's "overfunded" plan can become tomorrow's underfunded plan, and experience shows that the financial condition of plans can deteriorate significantly prior to termination.

    - It would permit corporations to use valuable tax benefits granted to help American workers accumulate retirement savings for nonpension, corporate purposes.

    - It would permit corporations to remove billions from the retirement system at a time when it is critical to increase national savings and retirement security.

- **The Republican budget would require federal employees to pay more for their retirement.**

  - It also requires agencies to pay more for employees covered by the Civil Service Retirement System (CSRS), diverting much-needed resources from important programs.

31. <u>**REPEALS TAX CREDITS THAT CREATE HOMES AND JOBS FOR WORKING FAMILIES AND REBUILD COMMUNITIES**</u>**:**

- This Administration made the low income housing tax credit permanent in 1993. Since its enactment in 1986, state housing agencies report that the credit has been used to construct or rehabilitate nearly 100,000 units of low income rental housing per year.

- The Republican budget terminates the low income housing tax credit at the end of 1997, a cut of $3.5 billion over 7 years. Their budget also ends an incentive for community development that builds bridges between businesses and communities.

- The Republican budget also would repeal the tax credit that encourages economic activity in Puerto Rico. We must not ignore the real needs of our citizens in Puerto Rico, and any legislation must contain effective mechanisms to promote job creation in the Islands.

WELFARE REFORM

32. EXCESSIVE CUTS FOR DISABLED CHILDREN:

- The Republican budget cuts aid to most of the severely disabled children coming on the rolls by 25%, and slashes $12 billion from disabled children's SSI benefits.

- The tightening of eligibility would apply to children currently receiving benefits as well as future applicants, so that 160,000 children currently in the program would lose eligibility within one year after enactment.

- The Republican bill creates an indefensible division between severely disabled children, making some of them eligible for only 75% of the federal benefit rate. Because of their responsibility for their children, the low-income parents of these children experience special costs and reduced employment opportunities.

- The Republican bill would take away SSI and food stamp benefits from *legal* immigrant children and adults who became severely disabled *after* entering the U.S.

33. PROVIDES TOO LITTLE CHILD CARE FOR REAL WELFARE REFORM THAT WOULD MOVE PEOPLE FROM WELFARE TO WORK:

- The Republican Budget does not provide the child care that is essential to move people from welfare to work.

- The bipartisan Senate welfare reform bill would have increased child care funding by $1.7 billion from the CBO baseline over the next five years. By contrast, the Republican budget *cuts* that funding by $1.4 billion, which means thousands of mothers will need to stay at home with their children on welfare instead of going to work.

- The Republican budget also weakens important bipartisan work provisions of welfare reform such as requiring states to maintain their stake in moving people from welfare to work, rewarding states for putting more people to work, requiring recipients to sign personal responsibility agreements, and providing a contingency fund for economic downturns.

34. UNDERMINES THE NATIONAL NUTRITIONAL SAFETY NET:

- The Republican budget excessively cuts foods stamp benefits by about $35 billion over 7 years, cutting benefits by 20% in 2002.

- Their optional food stamp block grant destroys our national nutritional safety net.

- Current law states that families with children that pay over 50% of their income for housing will receive food stamps in order to keep these families from having to choose between food and shelter. The Republican budget repeals this provision.

- The Republican bill would deny food stamp benefits to nearly 700,000 people, even those who are willing to work but cannot find a job.

- The Republican budget would also deny food stamp and SSI benefits to over 1 million *legal* immigrants. And it would severely limit Medicaid, AFDC, and scores of other important federal programs to *legal* immigrants.

- It also cuts child nutrition and the school lunch program by $5 billion. In addition, it would force schools to act as an extension of the nation's immigration authorities by denying school lunches to many immigrant school children.

35. JEOPARDIZES IMMUNIZATIONS FOR CHILDREN:

- The Republican budget repeals the Vaccines for Children program, putting at risk at least $1.5 billion over seven years that would otherwise provide vaccinations for children.

36. SLASHES CHILD PROTECTION BY 20%:

- The Republican budget cuts and block grants funding for child protection services and administration, including services that are needed to remove children from unsafe homes, place them in appropriate settings, and recruit and train foster parents and those wishing to adopt.

- HHS estimates that total spending in these programs is slashed by about 20%, or about $4 billion over seven years.

- These cuts would occur at a time when GAO and others report that resources are already failing to keep pace with the need. Between 1983 and 1993, foster care caseloads mushroomed by two-thirds. Over 1,300 children die each year due to child abuse and neglect.

- Yet the Republican budget slashes and caps these programs, eliminating the ability of the programs to respond to increases incidence in child abuse and neglect.

EDUCATION AND TRAINING
AND WORKER PROTECTION

37. EDUCATION AND TRAINING SHOULD BE STRENGTHENED -- NOT CUT BY MORE THAN $30 BILLION:

- While Republicans claim that they are balancing the budget to protect our children and grandchildren, their budget proposals make devastating cuts in education that would deny many children the tools needed to rise to their full stature as human beings. These cuts would halt years of progress preparing children for learning, raising educational goals and standards, and making student loans more affordable.

- Republicans propose to sell our nation's seedcorn. They cut education and training by more than $30 billion over 7 years, denying millions of children and youths opportunities to succeed.

RECONCILIATION: **THE MAIN EDUCATION ISSUE IN DISPUTE IN THE RECONCILIATION PACKAGE IS THEIR PROPOSAL TO NEARLY ELIMINATE THE DIRECT LOAN PROGRAM.**

38. DIRECT LOANS: CHOICE AND COMPETITION MUST NOT BE ELIMINATED:

A. The Republican budget cuts off direct lending opportunities for 2.5 million students in 1,350 institutions in 1996 alone.

- Their budget effectively replaces the Direct Lending program with the more costly, inefficient guaranteed loan program by "capping" direct lending at 10% of total loan volume. 90% of all schools will be denied the opportunity to choose their student loan program.

- On November 15, 1995, over 450 College Presidents wrote the President, Speaker and Senate Majority Leader making clear that direct lending was very popular, that competition and choice were the best principle, and that arbitrary caps were counterproductive. The Presidents and Chancellors of colleges and universities currently using or planning to use the Direct Lending program wrote to oppose attempts to "arbitrarily limit the ability of schools to participate in direct lending."

- This year, 1,350 colleges and universities will offer direct loans, with an estimated loan volume of $12 billion. With more than 2 million borrowers, direct loans now account for 35 to 40 percent of total student loan volume.

- The reason is straightforward: Under the direct loan program it is easier for students to repay their students loans, is simpler to borrow, and saves money.

- A recent survey by Education Daily found that more than 90 percent of participating colleges and universities rate the direct lending program as "excellent."

B. The Republican budget uses biased scoring of the Direct Lending program.

- Republicans claim that capping or eliminating Direct Lending will save taxpayer's money. But that conclusion is based on a scoring gimmick -- a special interest scoring rule imposed on the Congressional Budget Office by the Republicans.

- That biased rule requires CBO to include certain kinds of expenses when calculating the cost of Direct Lending but not when calculating the cost of ordinary guaranteed loans.

- Larry Lindsey, a member of the Federal Reserve, recently wrote that, "As long as it is necessary to provide a profit to induce lenders to guarantee students loans, direct lending will be cheaper."

- The Republican proposal puts the special interests -- the banks -- ahead of student interests. The Senate proposal to cap Direct Lending would increase loan volume under the guaranteed loan program by more than $100 billion. That would ensure as much as $6 billion in additional profits for banks, lenders, and others who hold guaranteed student loans.

39. <u>INCOME CONTINGENT -- PAY AS YOU EARN -- OPTION SHOULD NOT BE WITHDRAWN FOR MILLIONS OF STUDENTS:</u>

- The Republican budget also effectively eliminates one of the most promising features of the Direct Lending program, which gives students the option of adjusting their repayment to reflect their ability to pay. This change will make it more difficult for many students to take low-paying public service jobs or start a new business or take a year off to raise a child.

DISCRETIONARY EDUCATION AND TRAINING CUTS: THE REPUBLICAN BUDGET CUTS DISCRETIONARY EDUCATION AND TRAINING PROGRAMS BY $26 BILLION OVER 7 YEARS.

- Nearly all Americans agree that investing in education is critical to our future economic prosperity.

- Despite this consensus, the caps on non-defense discretionary spending proposed by the Republicans would have a devastating impact on educational opportunities for children and students of all ages.

    - The massive cuts in education proposed in just the first year of the Republican budget plan constitute nothing less than a down payment on the elimination of effective Federal support for education.

    - The Republican plan is an attack on programs that will improve academic achievement, create safer school environments, improve the quality of our teachers, promote parental involvement, and provide innovative technology in our classrooms.

    - Moreover, the Republicans are proposing severe cuts in precisely those areas that parents, teachers, and business leaders agree are most important for making real improvement in our education system, such as improving basic skills, raising standards for all students, keeping schools safe and drug-free, raising the qualifications of teachers, and bringing technology into the classroom.

40. <u>CUTS IN HEAD START WOULD LEAVE THOUSANDS OF CHILDREN WITHOUT A CHANCE</u>:

- The Republican budget cuts $135 million from Head Start in 1996 -- $535 million below the President's request for 1996.

- Assuming Republican spending on Head Start remains frozen at 1996 levels, their proposal would deny comprehensive education, health, and social services, to 180,000 children by the year 2002.

- These cuts would fall particularly hard on our most vulnerable children. Most of the children participating in Head Start are only 3 and 4 years old. 95% of these children come from families below the poverty line and 13% have a diagnosed disability.

- These cuts are penny wise and pound foolish, for Head Start is a good investment in our nation's future. As the Council of Economic Advisors concluded, after reviewing the literature on Head Start, "Participants in Head Start-style programs are less likely to be held back in school and less likely to be classified as special-education students, and more likely to graduate from High School." [Council of Economic Advisors, "Educating America: An Investment in Our Future," September 1995)]

41. ENDING GOALS 2000 WOULD CRIPPLE STATE AND LOCAL EFFORTS TO RAISE ACADEMIC STANDARDS:

- The Republican budget eliminates Goals 2000, cutting off 9,000 schools currently using Federal funds to raise educational standards, just as States and communities have completed their planning and begun to implement comprehensive reforms based on their own high academic standards.

- The President's proposal increases funding for Goals 2000, aiming to help more than 8 million children in 17,000 schools meet higher educational standards.

- Goals 2000 has received widespread support because of its flexibility and its emphasis on high standards and accountability. The *Wall Street Journal* has reported that Goals 2000 is viewed "by many political analysts as the most flexible education plan ever produced by the Federal government." *Wall Street Journal,* 8/30/95.

- IBM Chairman Lou Gerstner, for example, says that "Goals 2000 is only a small portion of what we need. But it is a very critical portion because it is the fragile beginning of the establishment of a culture of measurement standards and accountability in this country. We must go beyond Goals 2000. But if we lose Goals 2000, it is an incredibly negative setback for the Nation."

42. SLASHES FUNDS FOR BASIC AND ADVANCED SKILLS ASSISTANCE:

- The Republican budget cuts more than $1 billion and 1 million students from the Title I program that helps low-achieving poor children reach the same high standards expected of other students.

- More than 14,000 school districts and more than 50,000 schools rely on Title I funding to help improve their students' basic and advanced skills.

- The President has requested increased funding and greater targeting of those funds on communities with the highest concentrations of poor children, but the Republicans would both cut funding and reject greater targeting.

43. **SHARP REDUCTIONS IN SAFE AND DRUG-FREE SCHOOLS WOULD CRIPPLE EFFORTS TO REDUCE DRUG ABUSE, PREVENT VIOLENCE, AND IMPROVE DISCIPLINE IN AMERICA'S SCHOOLS:**

- The Republican budget cuts spending on Safe and Drug-Free Schools program by more than half in 1996, from $466 million to just $200 million, reducing services to up to 23 million school children.

- These funds currently support drug abuse and violence prevention activities for 39 million students in nearly all elementary and secondary schools.

- The Republican budget amounts to a surrender to the drugs and violence that plague so many of our communities, despite the fact that school safety and student abuse of drugs and alcohol are among the greatest concerns of parents and teachers.

- The President's budget rejects surrender and raises Safe and Drug-Free Schools funding to $500 million.

44. **TEACHERS WOULD BE DENIED THE TRAINING THEY NEED TO HELP STUDENTS REACH HIGHER ACADEMIC STANDARDS:**

- The Republican budget cuts the Eisenhower Professional Development State Grant program by 80 percent, from $251 million to just $50 million in 1996

- For all practical purposes, this would end Federal support for State and local efforts to prepare educators to teach to high standards in the core academic subjects — a key to reaching the National Education Goals.

- The President's budget, by contrast, would nearly triple funding for the Eisenhower program to $735 million, providing States and communities with substantial new resources for teacher training.

45. **EDUCATION TECHNOLOGY CUTS THREATEN TO LEAVE SCHOOLS, LIBRARIES, AND COMMUNITIES OFF THE "INFORMATION SUPERHIGHWAY":**

- The private sector will build, own, and operate the emerging National Information Infrastructure (NII). President Clinton has made clear, however, that he will not allow the emerging information superhighway to bypass middle-class Americans, to extend the gap between the well-off and the needy, or to let the United States become a nation of information "haves" and "have-nots."

- That is why he strongly opposes Republican plans to gut the National Telecommunications and Information Administration and its Telecommunications and Information Infrastructure Assistance Program (TIIAP). Cuts, like those proposed for TIIAP, would mean that hospitals, clinics, schools, libraries, local governments and non-profits may be excluded from the development of the advanced NII.

46. CUTS TO THE PELL GRANT PROGRAM DENY DESERVING STUDENTS A COLLEGE EDUCATION:

- Pell Grants are one of the bedrock Federal student aid programs, providing assistance to more than 3.7 million financially needy students.

- Republican proposals in 1996 cut $450 million from Pell Grants, denying Pell grants to 380,000 deserving students in 1996

- Pell Grants remain a good investment for our country. A wealth of economic data show that college graduates earn more over their careers, making college education a good investment for individuals and the Nation. The Bureau of Labor Statistics estimates that between 1963 and 1992, improvements in education accounted for about 20 percent of the per-capita income growth over the period.

47. ELIMINATES AMERICORPS -- PREVENTING STUDENTS FROM LEARNING RESPONSIBILITY THROUGH COMMUNITY SERVICE:

- The Republican budget eliminates the Americorps national service program.

- Its elimination would deny nearly 50,000 young people the opportunity to serve their communities next year while earning money toward their college education.

- General David Jones, a former Chairman of the Joint Chiefs of Staffs captured the spirit of the National Service program best when he said: "AmeriCorps programs work. They show what we can accomplish when the government operates as a true partner of communities. Most important, they build partnerships by enacting an old truth that the men and women in our armed forces learn so well: to earn opportunity you must take responsibility for yourself and for others."

- In contrast to the Republican cuts, the President would increase funding for National Service by $345 million next year, providing nearly 50,000 community service and college aid opportunities next year.

48. ELIMINATES FUNDING FOR WOMEN'S EDUCATIONAL EQUITY ACT:

- The Republican Budget eliminates the Women's Educational Equity program, denying schools funding for research and training programs designed to promote educational equity for women and girls.

49. ELIMINATES THE SUMMER JOBS PROGRAM AND CUTS FUNDS THAT HELP YOUNG PEOPLE MOVE FROM SCHOOL TO WORK:

- **The Republican budget eliminates the Summer Jobs program, denying about 600,000 disadvantaged young people meaningful summer work opportunities next year that would help prepare them to be active contributors to the workforce and the community.**

  - By eliminating the Summer Jobs program, Republicans will deny nearly 4 million disadvantaged youth summer job opportunities over 7 years.

  - Contrary to some claims, studies show that the Summer Jobs program does not displace private market employment but, rather, employs youth who would otherwise be unemployed and on the streets. [Jon Crane and David Ellwood, The Summer Youth Employment Program: Private Job Supplement or Substitute, Harvard University, March 1984.]

- **The Republican budget cuts funding for the School-to-Work initiative which helps states and local partners design systems that help young people make the transition from school to careers and lifelong learning.**

  - Linking academic skills to job skills and classroom teaching to worksite learning are essential to increasing worker productivity, raising wages, and maintaining American competitiveness in the new world economy.

  - These Republican cuts will require cuts in the grants to the 27 states already participating in the initiative, and prevent any additional states from joining.

50. CUTS IN EMPLOYMENT AND TRAINING PROGRAMS WILL LEAVE WORKERS UNPREPARED FOR THE NEW ECONOMY:

- The Republican budget cuts the President's request for employment and training programs by $1.6 billion -- or 26% below the 1995 funding levels.

- The Republican budget reduces funding to help dislocated workers find new jobs by $379 million -- or 31% -- compared to 1995 levels.

  - Republican cuts would deny 155,000 workers next year alone help obtaining the skills they need to adjust to the new economy and to corporate downsizing.

- These cuts don't make sense. Education and training programs, including those for experienced workers, have been shown to offer significant economic benefits. One recent study concluded that each year of education provided through a Pennsylvania program for older displaced workers increased earnings by roughly 7 percent. [Jacobson, LaLonde, and Sullivan, "The Returns to Classroom Training for Dislocated Workers," unpublished manuscript, September 1994; reported in Council of Economic Advisers, "Educating America: An Investment in Our Future," September 1995.]

- A major study of the Job Training Partnership Act's program that provides training to economically disadvantaged adults found that the program is cost-effective. Participation increased the earnings of adult males by 10% and the earnings of adult female participants by 15%. These earnings gains were one and a half times greater than the costs invested to produce them. [Bloom, The National JTPA Study: "Impacts, Benefits, and Costs of Title II-A," Abt Associates, March 1994].

51. <u>CUTS ENFORCEMENT OF WORKPLACE SAFETY LAWS AND JEOPARDIZES ENFORCEMENT OF THE FAMILY AND MEDICAL LEAVE ACT AND THE MINIMUM WAGE</u>:

- **The Republican budget cuts funding for federal enforcement of workplace safety laws 33% below the 1995 level.**

    - This cut would slow the Occupational Safety and Health Administration's response to imminent dangers and workplace emergencies, and would curtail or eliminate many compliance assistance activities.

    - As a result of their 33% cut, an estimated 50,000 more workplace injuries and illnesses may occur that could have been prevented. [Labor Department estimate based on Wayne Gray and John Scholz, "Does Regulatory Enforcement Work, *Law and Society Review,* July 1993.]

    - For many employers, safe workplaces save dollars. High rates of injuries and illness impose millions of dollars of additional costs on businesses, in the form of higher workers' compensation payments, related medical costs, and employee turnover costs.

    - Since OSHA was created in 1970, the workplace fatality rate has dropped by over 50%, and injury and illness rates have declined in the industries in which OSHA has focused its enforcement efforts. The Republican cuts would reverse much of this progress.

    - An extraneous provision in the Republican budget would also block OSHA's efforts to identify and address work-related musculoskeletal disorders (MSDs or ergo). They would also allow thousands more work-related injuries and illnesses, cost employers billions more in unnecessary worker's compensation claims, and even preclude OSHA from gathering information about the problem.

- **The Republican budget cuts jeopardize American workers' newly won rights to family and medical leave.**

  - President Clinton signed the Family and Medical Leave Act to allow workers to take up to 12 weeks of unpaid leave for the birth of a child, to care for a sick family member, or if they themselves become too sick to work.

  - The Republican budget cuts by 12% funding for worker protection activities, including enforcement of the Family and Medical Leave Act.

  - Because of these Labor Department enforcement activities, a pregnant woman in Miami got her job and health benefits back after she had been illegally fired from her job and lost her health insurance for requesting a leave of absence to have her baby. Since enactment of this law, the Labor Department has responded to over 3,500 cases involving the Family and Medical Leave Act.

- **The Republican budget cuts jeopardize enforcement of the minimum wage by cutting enforcement of protections such as the minimum wage by 12%.**

- **Republican budget cuts undermine efforts to stop garment industry sweatshops.**

  - The Department of Labor in 1995 stepped up enforcement actions against sweatshops. These actions yielded $2.2 million in backwages for 7,400 garment workers. By using the hot goods provision in the Fair Labor Standards Act, the Department has held manufacturers accountable for their contractors' labor law violations.

  - In August, the Secretary of Labor issued a national call for action against sweatshops in the garment industry, following the discovery of slave-like working conditions in a Southern California sweatshop.

  - The Republican budget's 12% cut in worker protection activities such as these will seriously impede efforts to end the exploitation of workers in sweatshops.

52. <u>PROHIBITS IMPLEMENTATION OF THE PRESIDENT'S EXECUTIVE ORDER ON STRIKER REPLACEMENT AND MAKES IT TOUGHER FOR WORKING PEOPLE TO BARGAIN COLLECTIVELY FOR HIGHER WAGES AND BETTER BENEFITS</u>:

- **The Republican budgets contains an extraneous provision that would prohibit implementation of the President's Executive Order that prohibits federal contracts with companies that permanently replace lawfully striking employees.**

  - The President's March 8, 1995 Executive Order allows the federal government to ensure a stable and dependable supplier base by prohibiting federal contracts with companies that use permanent replacement workers and by encouraging cooperative and productive labor-management relations. Research has found that strikes involving permanent replacements *last 7 times longer* than strikes that do not.

- **The Republican budget cuts the National Labor Relations Board by 30% in 1996 alone, crippling the NLRB's ability to guard against unfair labor practices by both employers and employees, and to protect the right of workers to organize.**

  - This 30% cut will destroy the orderly legal framework for resolving labor-management disputes, which has served the nation well for 60 years, and will severely undermine the rule of law that has governed the nation's labor relations.

  - This 30% cut would require the closure of *over half* of the NLRB's field offices, forcing employers and employees to wait months longer for resolution.

  - The Republican budget also includes extraneous provisions that would restrict the NLRB's authority to enforce the National Labor Relations Act -- a direct attack on the basic right of employees to organize unions.

ENVIRONMENT AND PUBLIC HEALTH

<u>RECONCILIATION PROVISIONS:</u>

53. <u>OPENS THE ARCTIC REFUGE TO OIL DRILLING</u>:

- The Arctic National Wildlife Refuge is a rare, pristine wilderness that the President supports protecting permanently, for the benefit of future generations.

- The Republican reconciliation bill would open the Arctic Refuge to drilling by the oil industry in hopes of generating $1.3 billion in federal revenues.

- The $1.3 billion estimate is overstated by several hundred million dollars due to oil price assumptions and other factors. It also assumes that the State of Alaska will not sue for 90 percent of the revenues (up from 50 percent in the bill) -- even though the Alaska statehood legislation gave them 90 percent.

- Exploration and development would disturb the area and create unacceptable risks of oil spills and pollution.

54. <u>CONTINUES TO TURN OVER BILLIONS OF DOLLARS OF TAXPAYER-OWNED MINERALS FOR A PITTANCE, EVEN WHILE IT RAISES TAXES ON WORKING FAMILIES</u>:

- The Reconciliation bill includes sham mining reform that provides for the sale of federal mineral rights at their "market value" -- defined as the value of the surface land, not the minerals. It's like selling Fort Knox for the price of the roof.

- The provision -- which sets a 5 percent royalty to be imposed after minerals are processed and after numerous deductions -- is so riddled with loopholes that the Congressional Budget Office estimates that it will produce less than $1 million per year for the Treasury from all federal hard rock mines in the nation.

- This, together with the mining provision in Interior appropriations, provides for the continued giveaway of public treasures under a law signed by Ulysses S. Grant in 1872. Just this month, Interior Secretary Bruce Babbitt was forced to turn over nearly $3 billion worth of copper and silver for less than $2,000.

55. **MANDATES TRANSFER OF WARD VALLEY (CA) SITE FOR A LOW-LEVEL RADIOACTIVE WASTE DUMP -- WITHOUT PUBLIC SAFEGUARDS:**

- The Administration has engaged in negotiations with the State of California to transfer the Ward Valley site with conditions recommended by a distinguished panel of the National Academy of Scientists.
- The Republican proposal would bypass good science and mandate unconditional transfer.

56. **FAILS TO TAKE ANY STEPS TO BUILD ON OUR EFFORTS TO PROTECT AND RESTORE THE FLORIDA EVERGLADES.**

57. **ENVIRONMENTAL BUDGET IS A CATCHALL FOR VARIOUS OBJECTIONABLE POLICIES, MANY HAVING NOTHING TO DO WITH BALANCING THE BUDGET:**

- The Republican budget includes an uncompetitive approach for handing out national park concessions that would protect vender monopolies, weaken safeguards against price gouging, and generally compromise efforts to bring pure competition to vender services.
- Other provisions in the budget pander to special interests at taxpayer expense, including special loophole water deals for corporate agriculture and certain water districts, and changes to federal oil and gas royalty collection that invite evasion by making collection more difficult and costly.

APPROPRIATIONS (VA/HUD & INTERIOR):

The President and Vice President believe that the impact of deep Republican cuts in non-defense discretionary spending imposed by the caps in the Republican reconciliation bill would have a devastating effect on the environment and public health over seven years. In fact, the Republican multi-year budget resolution specifically called for cuts to clean and safe water infrastructure, land management, and national parks. Furthermore, additional special interest riders and policy provisions severely limit EPA's ability to set and enforce environmental standards, and DOI's and USFS's ability to manage lands in a sound manner. The Republican budget also cuts the President's environmental advisors, the Council on Environmental Quality, by more than 50%.

58. IRRESPONSIBLE ENFORCEMENT CUTS WOULD LEAD TO DIRTY WATER, UNHEALTHY AIR, AND UNSAFE LAND:

- Cutting fair and consistent enforcement would hurt families who depend on clean air and water, and hurt companies that obey the law. Enforcement cuts would help only those companies who continue to evade environmental laws and pollute irresponsibly.
- The Republican budget contains a 25% cut in EPA's enforcement budget from the President's request.
- According to the Philadelphia Inquirer, budget cuts have already forced EPA to cut back on hundreds of inspections at toxic waste sites and for industrial air pollution and drinking water supplies; the Republican budget would put even more people at risk. (11/28/95)

59. CUTS FUNDS BY 17% TO SET PUBLIC HEALTH STANDARDS FOR AIR POLLUTION, PESTICIDES, AND CLEAN AND SAFE WATER.

60. DRINKING WATER CUTS WOULD LEAD TO MORE CONTAMINATED WATER:

- Safe drinking water is the first line of defense for protecting public health. President Clinton believes that when Americans turn on their taps, there should be no doubt that the water is safe.
- The Republican budget cuts by 45 percent ($225 million) the money that goes directly to States to protect communities' drinking water, compared to the President's budget. These funds are used by communities to upgrade facilities and better treat contaminants such as cryptosporidium, which in 1993 killed 100 people and sickened 400,000 others in Milwaukee.
- In the last two years, millions of residents of major U.S. cities, such as New York and Washington, DC, have been ordered to boil their drinking water.

61. CLEAN WATER CUTS WOULD BLOCK EFFORTS TO KEEP RAW SEWAGE AND OTHER POLLUTION OFF BEACHES AND OUT OF WATERWAYS:

- The Clean Water Act is a great American success story. Twenty-five years ago, the Cuyahoga River was so polluted it burned. Lake Erie was dead. Garbage floated in the Chesapeake Bay. Today, those waters are on the rebound.

- The Republican budget specifically cuts funds that go to States for waste water treatment -- making it difficult for States to comply with the Clean Water Act.

- The Republican budget cuts the President's request for waste water treatment support to the States by 30%. This money is used to construct and upgrade waste water treatment facilities that keep raw sewage from flowing into our rivers, lakes and streams.

- The Republican budget also contains a particularly objectionable rider that will prevent EPA from stopping the dumping of harmful fill into rivers and wetlands.

62. BUDGET CUTS WOULD STOP OR SLOW CLEANUP OF TOXIC WASTE DUMPS:

- Fifteen years after Love Canal, one in four Americans -- and *five million children* under the age of four -- still live within four miles of a Superfund toxic dump site.

- The Republican budget cuts the President's request for the Superfund toxic dump cleanup program by nearly 25 percent ($382 million), needlessly exposing citizens living near these sites to dangerous chemicals.

- In addition, Republicans in Congress separately continue to change the Superfund law to relieve polluters -- including the company responsible for Love Canal -- of the responsibility to pay for the pollution they caused and shift that burden to the American people.

63. EXTRANEOUS POLICY PROVISIONS THREATEN OUR WATER, AIR AND LAND -- AND THE PUBLIC'S RIGHT TO KNOW:

- On August 8, President Clinton signed an executive order on pollution disclosure to protect peoples' access to information about toxic emissions in their communities. He had expanded the public's "right to know" once before. The law is the most cost-effective pollution reduction program we have.

- The Republican budget originally included 17 separate special interest riders -- including one blocking the public's right to know. The conference budget contains several back door ways to include previously attached riders.

- The conference report threatens the next phase of the Clinton Administration's effort to expand information available to communities -- information not currently reported to the public about dangerous chemicals. The bill may prevent EPA from moving forward.

- Efforts to prevent the reduction of toxic pollutants from hazardous waste facilities and block upgraded pollution control facilities have also been transferred to report language.

- Echoing two riders on the House budget proposal, the report language advises EPA to delay for nearly one year the Clinton Administration's combustion strategy, which would issue overall protections to reduce toxic pollutants from hazardous waste incinerators.

64. REDUCES ENVIRONMENTAL RESEARCH AND TECHNOLOGY:

- Environmental research and technology funding is cut by nearly $1 billion or 20% from the President's request for FY 1996.

- The Republican cuts include a 92% reduction from the President's request for the Environmental Technology Initiative (ETI), which would thwart efforts to encourage the development of new technologies that reduce pollution and clean-up the environment while creating new jobs and economic growth. America cannot expect to be the world's leader in environmental technologies -- a market that is expected to boom to $400 billion by 2000 -- if American industry does not make sufficient investments in this area today.

- The Republican budget also proposes to slash scores of other environmental research programs that provide objective information in forestry, agriculture, minerals management, global climate change, natural disasters, fisheries, weather forecasting, and other areas. This would stifle our efforts to better understand and cope with environmental change.

65. INTERIOR APPROPRIATIONS BILL JOINS WITH RECONCILIATION BILL TO CONTINUE MINING GIVEAWAY:

- The Republican budget for the Interior Department would allow the moratorium on new mining patents to be lifted prematurely.

- This, together with the mining provision in the reconciliation bill, provides for the continued giveaway of public treasures under a law signed by Ulysses S. Grant. Just this month, Interior Secretary Babbitt was forced to turn over almost $3 billion worth of minerals to a foreign mining company for less than $2,000.

66. WAIVES ENVIRONMENTAL LAWS AND OPENS TONGASS RAINFOREST TO CLEARCUTTING:

- The Republican budget proposes to dictate timber cutting levels in Alaska's Tongass National Forest beyond sustainable levels. It would waive environmental laws and expand clearcuts, through an extraneous policy provision in the Interior appropriations bill.

- The Republican proposal could hurt sport and commercial fishing interests in the area and the region's tourism industry, which has grown 40 percent in four years.

- According to tour operators, the visitor industry is more profitable and has a higher payroll by far than the timber industry, and increased logging will directly hurt their business. (New York Times 9/12/95)

67. BUDGET BLOCKS EFFORTS TO PROTECT PACIFIC NORTHWEST SALMON:

- For centuries, salmon have been among the most valued resources in the Pacific Northwest, as the Oregonian says, "a treasured part of our natural heritage." (11/12/95 editorial.)

- The Republican Interior appropriations bill includes a policy rider that would block efforts to protect salmon and ensure sustainable economic growth in the Columbia River Basin, by terminating comprehensive planning for the management of public lands in that area.

68. UNDERMINES THE CALIFORNIA DESERT -- THE NATION'S NEWEST NATIONAL PARK:

- Last year Congress passed, and the President signed, the California Desert Protection Act, the largest single designation of parks and wilderness areas ever in the lower 48 states.
- The new reserve protects broad desert vistas, rugged mountain ranges and unique archeological sites.
- The Republican budget provides just one dollar for the National Park Service to operate the new Mojave National Preserve.

69. WOULD COMPROMISE MANAGEMENT OF HEALTHY ANCIENT FORESTS:

- The Republican Interior appropriations bill includes a policy rider that would prohibit the Administration from using the most current and appropriate science to protect forests in the Pacific Northwest, a practice that could lead to expanded logging of healthy ancient forests.

70. SHORTSIGHTED BUDGET CUTS UNDERCUT EFFORTS TO HEAD OFF CHANGES TO THE EARTH'S WEATHER:

- Recently a panel representing 2,500 scientists from 100 nations confirmed that human activity is affecting the global climate. Earlier this year, scientists won a Nobel Prize for their work on ozone depletion.
- Climate change could bring an increase in heat waves, fires, and pest outbreaks, increase the number of heat-related deaths and illnesses, and expand the range of infectious diseases like malaria, yellow fever, and encephalitis.
- The Republican budget cuts by more than 40 percent programs designed to slow global warming through innovative, voluntary energy efficiency programs and to prevent depletion of the ozone layer.
- These programs reduce pollution, save money, and create jobs.

71. <u>CUTS ENERGY EFFICIENCY PROGRAMS, INCREASING ENERGY USE AND ENERGY COSTS</u>:

- The Republican budget cuts DOE energy conservation programs by almost 40 percent ($187 million) from the President's request.

- Energy efficiency programs such as these save consumers money, create jobs, and reduce emissions that contribute to air pollution and climate change. The Department of Energy estimates that federal energy efficiency programs would save homeowners $17 billion and businesses $12.5 billion per year by the year 2005, and would create 57,000 jobs.

- In addition, the oil that could be saved by these programs is greater than the oil that can be recovered in the Arctic National Wildlife Refuge.

RESEARCH, TECHNOLOGY, AND INNOVATION

72. CUTS NON-DEFENSE R&D BY ONE-THIRD:

- The Republican budget plan would cut non-defense research and development (R&D) by *one-third* in real terms over the next seven years, from $34 billion in FY 1995 to $23 billion in FY 2002, according to independent analysis performed by the American Association for the Advancement of Science. This is an amount equivalent to eliminating all federal spending on university research.

- These cuts break with America's unwavering bipartisan commitment to U.S. leadership in science and technology, and threaten our economic future.

- The Institute for Electrical and Electronics Engineers describes the proposed Republican cuts to R&D as "short-sighted, disproportionate, detrimental to the profession, and potentially harmful to our economic and technological competitiveness."

- The Industrial Research Institute predicts that "proposed cuts clearly will have a long-range impact on industry's capacity to carry on technological innovation and compete globally in the next century."

- The Competitiveness Policy Council warns that "Current plans for eliminating the budget deficit may sacrifice the nation's ability to generate new technologies and develop new products and processes."

- These cuts could not come at a worse time. Japan will surpass the United States in total government dollars spent on non-defense R&D if the Republican cuts are implemented and the Japanese government implements its plans to double R&D by 2000.

- Indeed, since World War II, innovation has been responsible for as much as half of the nation's economic growth, generating new knowledge, creating new jobs, building new industries, and improving the quality of life for all Americans.

- Americans hold millions of jobs in industries that have grown as a result of wise public and private investment in R&D, including (as of 1992): Biotechnology (79,000 jobs), Computers (479,000 jobs), Communications (366,000 jobs), Software (450,000 jobs), Aerospace (895,000 jobs), Semiconductors (317,000 jobs).

- In 1992 average pay for workers in these and other high-technology industries was 60% higher than the average for all American workers.

73. <u>ELIMINATES PARTNERSHIPS WITH INDUSTRY THAT PROMOTE INVESTMENT IN HIGH-RISK RESEARCH WITH BROAD ECONOMIC POTENTIAL</u>:

- American competitiveness in the 21st century depends on our ability to continue to fund the development of high-risk, innovative technologies. Yet despite historical bipartisan support, Congress has proposed to eliminate the Advanced Technology Program (ATP), a merit-based, competitive, cost-shared industry-led partnership that is enabling the private sector to invest in high-risk technologies with broad-based future economic potential.

- Meanwhile, public and private investment in R&D -- in particular long-term R&D -- has been anemic for more than a decade, with industry's R&D investment growth rate negative for the past four years. This trend has made the ATP a small, but critical, part of the nation's R&D portfolio that must be maintained.

- By eliminating the Advanced Technology Program, Congress will force the government to renege on its commitment to fund up to 250 ATP projects involving 700 different small and large companies, universities, and other organizations in 36 states, who have committed nearly a billion dollars of their own money to these projects. Perhaps more importantly, without the ATP, American companies will find it even more difficult to invest in the breakthrough technologies upon which this nation's future depends.

FIGHTING CRIME AND EMPOWERING COMMUNITIES

74. <u>ABOLISHES COMMITMENT TO PUTTING 100,000 NEW COPS ON THE STREET:</u>

- The Republican plan calls for a block grant that would repeal the national commitment to funding 100,000 new police officers.
- President Clinton's Crime Bill is well on the way to placing 100,000 new police officers on the streets. The Republican plan would bring that program to a halt and not guarantee a single additional new officer on America's streets.

75. <u>REDUCES THE EFFECTIVENESS OF THE VIOLENCE AGAINST WOMEN ACT:</u>

- The Republican budget reduces funding for domestic violence prevention and intervention programs by $22 million from the President's budget, including zeroing out grants for women's shelters and grants to reduce sexual abuse of runaway and homeless youth.

76. <u>ABOLISHES NEW COMMUNITY DEVELOPMENT BANK PROGRAM TO LEVERAGE PRIVATE SECTOR INVESTMENT IN DISTRESSED COMMUNITIES:</u>

- The Republican budget eliminates the Community Development Financial Institutions program which was created to bring credit and growth to distressed communities by promoting the formation and expansion of community development financial institutions.
- Community development financial institutions provide credit, capital, equity, and technical assistance to thousands of promising small businesses, economic development projects, and new homeowners in distressed communities in urban and rural America.
- The Treasury Department estimates that each dollar of federal money generates $10 in new development activity, creating jobs and economic growth.

77. SLASHES FUNDING TO DEMOLISH SEVERELY DISTRESSED HOUSING PROJECTS, JEOPARDIZES ENFORCEMENT OF FAIR HOUSING LAWS, AND MAKES IT MORE DIFFICULT TO USE SURPLUS FEDERAL PROPERTY TO HELP THE HOMELESS:

- The Republican budget cuts nearly in half the President's request for funding to reform public housing and revitalize communities by demolishing the most severely distressed housing.

- The Republican budget transfers HUD's responsibilities for enforcing the Fair Housing Act to the Department of Justice, jeopardizing civil rights enforcement and needlessly wasting funds and time.

- The Republican budget repeals the McKinney Act requirement that organizations serving the homeless be given priority in acquiring surplus Federal property for use in providing shelter, job training, meals, medical care, and other support to the homeless.

FARMING / AGRICULTURE

78. <u>THREATENS CONSERVATION BENEFITS ACHIEVED UNDER THE CONSERVATION RESERVE PROGRAM:</u>

- The Conservation Reserve Program is designed to achieve long-term conservation benefits by authorizing long-term contracts with farmers to keep environmentally sensitive land out of production..

- The Republican budget would allow producers to withdraw from 10- to 15-year Conservation Reserve Program contracts -- which were entered into voluntarily -- by simply giving USDA 60-days notice.

- The main purpose of the CRP is to achieve long-term conservation benefits, This self-declared withdrawal process completely undermines that concept. It also invalidates the whole concept of a long-term contract between the public and the farmer.

- Currently, only the Secretary of Agriculture has the authority to grant such "early outs." He continues to use that authority judiciously to ensure that only those lands that truly belong in the CRP remain there. But a standing provision that allows contract holders to withdraw whenever they want and at no cost is bad public policy and should not become law.

79. PREVENTS FARMERS FROM GRANTING PERMANENT EASEMENTS UNDER THE WETLANDS RESERVE PROGRAM:

- The Republican budget would prevent permanent easements under the Wetlands Reserve Program.

- Right now this important -- and completely voluntary -- wetlands restoration program relies on 30-year or permanent easements. The response to the program from farmers has been overwhelming: for every acre USDA has agreed to fund, farmers have offered seven.

- Moreover, from the standpoint of protecting the interests of the American taxpayer, permanent easements offer the government the best value -- taxpayers only have to pay for wetlands protection once.

- The Republican budget would federally mandate the exclusive use of 15-year contracts or easements. This would require repeated renewals and additional costs to achieve permanent protection. The bill does not make sense -- either to farmers, who like the current program, or to taxpayers, who want the most for their money.

- The President also opposes the bill's prohibition on permanent easements and its exclusive reliance on 15-year easements for wetlands preservation. We believe that far sounder public policy would be to give farmers choices for protecting wetlands -- ranging from cost-share assistance to long-term and permanent easements.

80. SHREDS THE FARM SAFETY NET BY CUTTING THE LINK BETWEEN COMMODITY PAYMENTS AND FARM CONDITIONS:

- The Republican budget slashes the farm safety net. In contrast to the present system, which provides assistance to farmers only during periods of low prices, the Republican budget provides a fixed payment to producers during good years and bad -- and then eliminates this critical safety net for American farmers altogether.

- Fixed payments do not respond to changing market conditions. By cutting the link between farm payments and market prices, the Republican budget leads to undesirable results. Producers could receive windfall profits in good years when prices are high, while family farmers' incomes would not be protected when prices are low.

- Fixed payments can mean producers get unnecessarily large amounts of money when market prices -- and profits -- are very high. This invites public criticism of all farm programs when budgets are tight..

81. <u>CROP INSURANCE:</u>

- Last year's crop insurance reform produced a program that is cost-effective and reliable for both producers and taxpayers. The reform linked insurance benefits to farm program participation in order to insure maximum producer participation.

- Now Congress wants to disrupt this program by eliminating the link between farm program benefits and insurance. If this happens, farmers who do not see the advantage of signing up for crop insurance will be financially vulnerable when disaster strikes.

- This will undoubtedly lead to producers asking Congress and taxpayers for crop disaster assistance money. It is bad public policy to ask taxpayers to pay for two programs designed for crop losses -- the crop insurance program and disaster assistance.

82. <u>CUTS THE EXPORT ENHANCEMENT PROGRAM:</u>

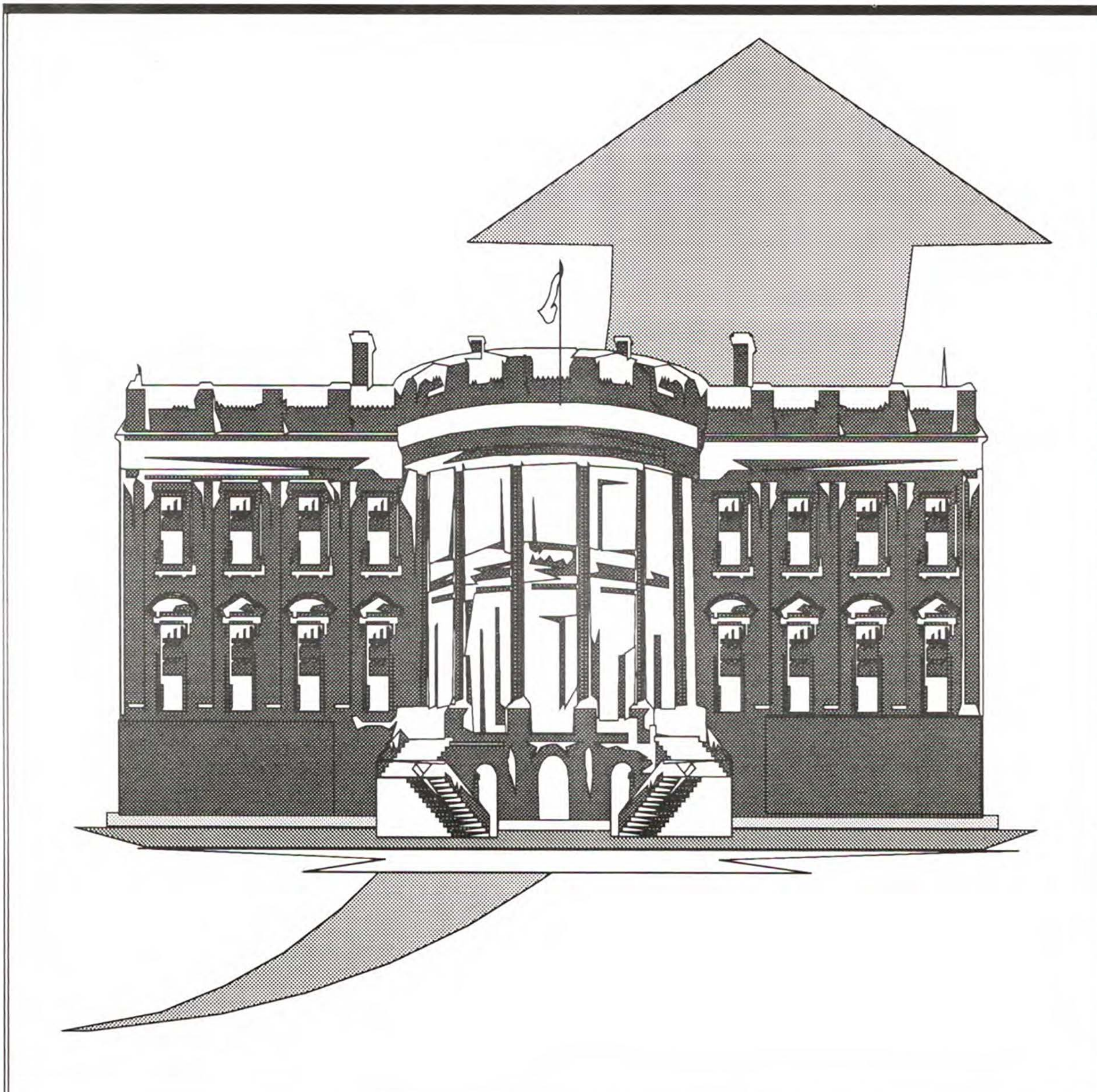
- The bill cuts funding for the Export Enhancement Program (EEP) to levels well below those agreed to with our trading partners.

- EEP is designed to counteract the unfair pricing practices of trading competitors.

- EEP funding in FY 1996 is set at just $350 million, $633 million less than the level permitted under the Uruguay Round Agreement in 1994. Should our producers need the EEP in future years, lack of funding could hinder U.S. farm export efforts.

A New Direction

The Clinton Budget and Economic Plan



Center on Budget and Policy Priorities