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White House Office of Policy Information

FAIRNESS ISSUES

A Briefing Book
on
Individual Programs
and
General Perspectives

THE WHITE HOUSE

WASHINGTON

FAIRNESS ISSUES

An Executive Briefing Book

White House Office of Policy Information

June 1, 1982

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THE FAIRNESS ISSUE: WHAT IS IT?

Crucial question: Is the President's Economic Recovery Plan fair to all Americans, or do certain classes of people benefit at the expense of others?

The President's position: The Economic Recovery Program will benefit all Americans, especially the poor, the disadvantaged, and the elderly -- the very people who have been hurt most by the past several years of high inflation, interest rates, unemployment, and slow economic growth.

The criticism:

- The Economic Recovery Program is designed to achieve recovery on the "backs of the poor."
- Budget cuts single out the poor for special retribution.
- Budget policies are based on the adverse moral judgment that "you're poor because you deserve to be poor."
- Tax rate reductions are tailored to help the rich at the expense of the poor.
- The President lacks compassion for the poor.
- The poor will get poorer and the rich will get richer as a result of the President's policies.

What do the people think?

- Recent Harris survey gave the President a 73-25% negative rating on "caring about the elderly, poor, and handicapped."
- DMI poll in May 1981 gave the President a 52-47% negative rating on caring about the poor and elderly; by February 1982, the rating had become 67-32% negative.
- In February 1982 DMI poll, 59% of respondents said the President's program favored the rich; only 24% believed the program equally met the needs of all people.
- A March 22, 1982, Harris survey showed the American people disapproving of the President's handling of:
  --the economy, by 63-35%
  --the federal deficit, by 66-29%
  --inflation, by 61-37%.
- A May 28, 1982 CBS/NY Times poll showed that 7 out of 10 Americans felt prices were rising as fast as a year ago.

The problem: Clearly, the President's message is not getting through. Even where the benefits are indisputable -- as with inflation -- the public has yet to perceive them.

What to do (three-point approach):

- o Demonstrate that the past approach to poverty has not worked:

  --Social spending has mushroomed.

  --The economy has deteriorated.

  --The poor have suffered the most.

- o Show that the President has a plan:

  --The plan is fair.

  --The plan will work.

  --The poor have the most to gain.

- o Emphasize that we need to stay on course:

  --There are growing positive signs.

  --To the extent the economy remains sluggish it is because we have a long way to go.

  --We can turn the economy around, but only if we take the necessary steps.

THE PAST APPROACH TO POVERTY HAS NOT WORKED

1. Social spending has mushroomed.

   o In President Kennedy's first (FY 1962) budget:

   --Fully 46% went for defense; only 27% for social programs.

   --America spent $28.7 billion on social programs.

   o The "Great Society" burst the budget at its seams.

   --Non-defense payments to individuals jumped from $28.7 billion in 1962 to $63.2 billion in 1970 -- an increase of almost 120%. Even in inflation-adjusted dollars, payments to individuals nearly doubled.

   --Examples:
   *AFDC grew from $2.9 billion in 1963 to $7.8 billion in 1969 -- an increase of nearly 200%.
   *Non-cash transfers rose from $1.3 billion in 1965 to $12.9 billion in 1970 -- a ninefold increase.

   o During the 1970s, the trend accelerated:

   --Real social spending in 1981 -- adjusted for inflation -- was nearly 2-1/2 times the level in 1970.

   --More examples:
   *Food stamps' cost rose 15 times -- from $576 million in 1970 to $9.1 billion in 1980.
   *Guaranteed student loans rose from almost nothing ($331 million) in 1977 to $2.3 billion in 1981 -- a jump of nearly 600%

2. During this time, the economy deteriorated badly.

   o Inflation worsened.

   --From 1960 to 1965, prices never rose more than 2% in a year (Can you imagine that!?)

   --By 1969, the inflation rate had tripled -- to 6.1%.

   --By 1979 and 1980, it had doubled again, and America suffered back-to-back double-digit inflation for the first time since World War I.

   --By 1980, value of a 1960 dollar had shrunk to 36¢.

   --A pound of hamburger costing 48¢ in 1960 had risen to $1.58, and was heading toward $2.00.

o Interest rates rose.

--From 1960 to 1965, the prime rate, on an annual basis, never rose above 5%.

--After 1965, the prime rate, on an annual average basis, never fell below 5%.

--The monthly prime rate has not fallen below 10% since 1978, and over the last three years has averaged 15.6%.

--Mortgage interest rates averaged nearly 13% in 1980 -- the highest level in U.S. history, and double the levels of the early 1960s.

--At that rate, some 90% of those who rented could not afford to buy a home.

o Unemployment worsened.

--From 1960 to 1964, unemployment averaged 5.7%.

--From 1975 to 1980, unemployment averaged 7.1% -- a full one-fourth higher.

--The unemployment rate has been trending steadily higher since mid-1979, and has averaged 7.7% the past two years.

o Effect on the family.

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

--Real family incomes -- that is, incomes adjusted for inflation -- actually fell from 1969 to 1980.

--Because taxes increased significantly during this period, real take-home pay declined by much more.

--A Congressional Joint Economic Committee calculated that the slowdown in productivity growth in the 1970s cost the average household $3700 in income in 1978.

- <u>Consequently, the number of poor has grown.</u>

  --From 1949 to 1964 (pre-"Great Society"), the percent of families in poverty fell from 32.7 to 18.0 -- <u>a decline of more than 40%</u>.

  --From 1964 to 1968, the percent of families in poverty continued to drop, falling to 12.8 by 1968.

  --But then the fall sputtered to a virtual halt, and <u>by 1980</u> the <u>percent of families in poverty</u> (13.0%) <u>was greater than in 1968</u>.

  --There were <u>more people in poverty in 1980 than in 1966</u> (29.2 vs. 28.5 million); there were <u>five million more people</u> in poverty in 1980 <u>than in 1969</u>.

3. <u>And it is these poor who have suffered the most</u>.

   - Despite yearly benefit increases, inflation-adjusted AFDC <u>benefits have fallen nearly 30%</u> in the last decade.

   - This has meant a loss to the average four-person poor family of <u>$2800</u> in purchasing power -- enough for them to have paid for food and shelter for <u>more than half a year</u>.

   - Because the poor spend up to 70% of their family budgets on necessities, there are <u>very few ways they can cut back</u> to beat inflation.

   - Yet the rise in economic stagnation and unemployment left the poor with <u>no alternative</u> but to subsist on these ever-shrinking real incomes.

4. <u>Let's not play games</u>.

   - The undeniable conclusion is that despite a decade and a half of continuously increasing social spending, <u>there are more poor people</u> in America today, and <u>those people who are poor are economically worse off</u>.

   - <u>Ronald Reagan did not create this problem</u>. The poverty and unemployment that exists today is a direct outgrowth of the policies and problems of the late 1960s. Poverty, unemployment, and interest rates have all been trending higher since the middle of the Carter Administration.

   - <u>There is nothing "fair" at all in condemning more people to poverty, and making those in poverty demonstrably worse off</u> -- yet this is precisely what the policies of the past fifteen years have done. <u>We cannot blind ourselves to this fact</u>.

THE PRESIDENT HAS A PLAN

The Plan (Five Elements):

- Reduce spending growth.

  --Spending growth would be reduced from 17.4% in 1980 and 14.0% in 1981 to less than 7% in 1983.

  --Where budget growth totaled $166 billion in 1979 to 1981, it would rise less than 3/4 of that amount from 1981 to 1983, despite cost-of-living adjustments and needed defense buildup.

- Reduce tax rates.

  --Individual tax rates will fall 23% by 1983, helping to offset much of the tax increases which had been planned by the previous Administration.

  --Tax indexing, to begin in 1985, will ensure that taxpayers are not pushed into higher tax brackets by inflation.

  --Business tax rates have been dramatically reduced through sharply accelerated depreciation which will spur investment.

- Reduce unnecessary regulation.

  --Task force under direction of the Vice President will, by mid-year, have saved industry and consumers at least $15 billion in one-time costs and $9 billion in annually recurring costs.

  --These savings will free capital to go into job-creating and productivity-enhancing investments.

- Stable monetary growth.

  --Needed to keep inflation and interest rates down.

- Consistency.

  --Previous President had five economic plans in three years.

  --President Reagan will stick with his program to permit consumers and businesses to plan ahead.

1. The plan is fair.

o Budget growth reductions are proposed in a wide range of programs

--Reduce the federal subsidy for Amtrak by one-third (subsidy had reached $192 per ticket on some trips).

--Reduce direct loans to large exporting companies by $570 million (27% of budget had gone to one firm).

--Cut by more than half subsidies to companies developing energy projects -- market competition will more effectively determine what should be developed.

--Eliminate the construction subsidies paid to U.S. builders of privately owned merchant ships.

--Cut back on dairy and farm subsidies.

o Budget changes in "people programs" will reduce or eliminate help to those who need it least.

--Food stamp recipients will be required to count all income in determining eligibility for aid.

--Able-bodied applicants for AFDC will be required to search for work in order to receive their benefits.

--Renters of subsidized housing will be asked to pay rents more comparable to those paid by unsubsidized tenants with similar incomes.

--All families applying for guaranteed student loans will be required to demonstrate financial need.

--Pell Grants for college students will be targeted to those who most need them, with 75% of the awards reserved for families earning less than $12,000 per year.

o The truly needy will be protected.

--Children from families below 130% of the poverty line will continue to receive free school lunches.

--Food stamp benefits for families with little or no income will be essentially unchanged.

--The Federal government will subsidize, all told, approximately 95 million meals per day, or 14% of the meals served in the U.S. each day.

--Through Medicaid and Medicare, the Federal government will pay for the medical needs of 99% of America's elderly.

--Job training will be provided for almost one million low-income disadvantaged persons, 90% of whom will be below age 25 or on welfare.

--More than 40% of all college students will continue to receive federal education assistance.

--About 3.4 million American households will receive HUD subsidized housing assistance.

--In sum, Federal income assistance to the poor will be one-third higher in 1985 than it was in 1980, and more than seven times the amount spent in 1970.

2. The plan will work.

o Cut inflation by two-thirds -- from an average of 12.9% in 1979-80, to under 5% in 1984, down to 4.4% in 1987. Since inflation for the last six months has been running at 3%, inflation could fall even more quickly.

o Create 3 million new jobs by 1986, in addition to the 10 million new jobs that could have been expected.

o Reduce unemployment by 1986 to the rate that prevailed in the early 1960s.

o Cut interest rates to below 10% by 1984, and to 7% by 1986.

o Increase purchasing power for all families. A family at the poverty level would realize an annual cash savings of $760 by 1984; a family earning $25,000 would receive an annual real take-home pay increase of $2,500.

o Bring Americans out of poverty. The number of Americans in poverty would thus decline as real incomes rose.

3. The poor have the most to gain.

o A growing economy benefits the poor the most.

--The rate of poverty declined the most sharply in the early 1960s, when the rate of economic growth more than doubled.

--The number of people in poverty rose most steeply (by almost 4 million people) in 1980, when economic growth slowed to a crawl.

--Restoring economic growth will best help the poor escape poverty.

- Lower inflation helps the poor the most.

  --Because the poor spend 70% of their income on necessities, lower inflation rates help the them purchase those things most essential to a better quality of life.

  --Cutting inflation in half would increase a poor family's purchasing power by 16.3% by 1984 over what it would have been with inflation at its 1979-80 levels -- the equivalent of a 41% increase in their AFDC benefits, or a $1,375 annual cash supplement.

  --This cash savings could mean more nutritional meals, a car (to make job searches easier), or moving to more liveable housing.

- More real jobs will help the poor.

  --More jobs make it much easier for the poor, many of whom are unskilled, to find work; they often can't compete with higher skilled workers when the job market is tight.

  --Finding a job and learning skills are the best ways for a poor person to move up the economic ladder.

WE NEED TO STAY ON COURSE

1. There are some positive signs.

   o The most important economic event of 1981 was the unwinding of inflation.

   --When President Reagan took office, the United States had just experienced its second straight year of double-digit inflation, and the producer price index for January 1981 was proceeding at an annual rate of more than 15 percent.

   --By December 1981, the inflation rate had fallen to 8.9 percent -- a more than one quarter drop from the previous year.

   --For the first four months of this year, consumer prices have increased at an annual rate of less than one percent. Producer prices have actually dropped in two of the last three months, presaging still lower inflation in the months ahead.

   --This represents the largest reduction in inflation during a recession in postwar history.

   --For a family at the poverty line, this drop in inflation has meant a cash savings of $437 over the past six months.

   o Interest rates have also fallen.

   --The prime rate was 21.5 percent at the beginning of 1981. It has since fallen 5 points.

   --Three-month T-bill rates are down more than 2-1/4 points since February, and have dropped nearly 5 points since a year ago.

   --Mortgage rates are half a point lower than their November 1981 peak.

   o Investment has remained strong.

   --Investment almost always falls, sometimes steeply, in a recession.

   --By contrast, this year's inflation-adjusted investment is expected to match last year's, which was a near-record year.

   o Real disposable income.

   --Real disposable income grew at a 3.5% annual rate in the first quarter, up sharply from the 0.8% growth rate of the previous three months.

o Real consumer spending.

--Real consumer spending has grown at an annual rate of 3.4% for the first quarter, up from no growth in the last quarter of 1981.

o Unemployment.

Unemployment remains too high. There are, however, some encouraging signs:

--By the beginning of May, initial unemployment claims were down almost 6% from the March level.

--Some callbacks are beginning. General Motors called 4,200 workers back to work at assembly plants in Fairfax, Kans., and Lansing, Mich. Chassis production has been increased at Chevrolet plant in Detroit.

--The number of job openings is up. There were 189,000 job openings at statewide job banks in March, a 28% increase over February. Jobs for clerical workers, sales workers, and service employees constituted 44% of the March openings.

--Recent inventory liquidations, double what most economists expected, could set the stage for increased employment in the summer.

2. To the extent the economy remains sluggish, it is because we still have a long way to go.

o Spending remains out of control.

--CBO's projected spending -- excluding the President's proposed cuts -- show a combined level for 1982-84 virtually equal to the levels proposed by President Carter before he left office. Spending growth has not yet been cut substantially.

--The Administration's projected rise in the 1982-85 budget deficits, made over the last three months, is entirely the result of higher budget levels (rather than lower tax revenues).

--Examples of increases over RR 1983 budget:

*House Post Office Committee -- $3 billion over

*House Agriculture -- $3-6 billion over

*House Education and Labor -- $20 billion over

*House Public Works -- $7 billion over

o Taxes remain too high.

--So far, individuals have received only a 5% tax rate cut, which did not offset social security and inflation-generated tax increases.

--Democratic leaders have continually been looking for ways to take back both the personal and business tax rate cuts, breeding uncertainty and making it impossible for people to plan.

o Deficits remain too large.

--The market is looking at possibly triple-digit deficits for some time into the future.

--Democratic leaders have not shown a willingness to reduce these deficits by controlling spending. (Note: a March 1982 Gallup poll showed 47 percent of the public favoring reduced spending to close the deficit, 4 percent favoring higher taxes, 20 percent favoring both, and 18 percent neither).

3. We can turn the economy around, but only if we take the necessary steps.

o Politically easy though the course might seem, we cannot return to the tax-and-spend policies of the past. They produced this crisis.

o We need a realistic patience. The economy is like a big battleship -- it can be turned around, but the process is slow and takes much effort.

o We cannot "wish" the economy into better health. We have to follow policies that will work, and we have to stick with them. (Like the battleship, if we stop turning, the ship will stay where it is; it won't automatically turn about toward the course we want. And if we turn back toward the wrong direction, it will be impossible to get where we want to be).

o The economy is the same way. We can either return to the path of economic calamity that existed under the previous Administration, or we can hold firm on all aspects of the President's program, and produce a stronger, healthier economy.

THREE KEY QUESTIONS

1. Isn't the President proposing to drastically cut back on social programs for the poor?

   o Overall, spending is not being cut; our 1983 budget is $38 billion larger than the one for 1982.

   o Compare to JFK:

   --RR's 1983 budget is $758 billion, 43 percent of which goes for non-grant payments to individuals.

   --JFK's first budget was less than one-seventh this size, and only 25 percent went for non-defense, non-grant payments to individuals.

   o Spending for many specific programs to help people is up substantially from fiscal 1980 (last full Carter fiscal year). RR is not gutting programs that help the needy -- far from it.

   --Guaranteed student loans:
   *Spending in 1980 was $1.4 billion.
   *Spending in 1983 to be $2.6 billion.

   --SSI for elderly, poor, and blind:
   *Spending in 1980 was $6.5 billion.
   *Spending in 1983 to be $8.9 billion.

   --Social security:
   *Spending in 1980 was $122 billion.
   *Spending in 1983 to be $175 billion.

   --Health care:
   *Spending in 1980 was $58 billion.
   *Spending in 1983 to be $78 billion.

   --In fact, for 16 social programs (those considered in this book, plus SSI, combined welfare administration, energy assistance, and the rest of social security), real spending under Reagan (spending adjusted for inflation) will be $4.5 billion greater in 1983 than in would have been under Carter.

   o Reminder:

   --95 million meals a day subsidized.

   --$55.8 billion in income assistance for the poor.

   --Medical care for 47 million elderly and poor.

   --Rental assistance for 10.2 million people.

   --Job training for 1 million young and poor.

   o Care most of all about creating jobs, jobs, and more jobs. Ultimately, this is the most compassionate thing we can do.

2. Doesn't the recession prove that Reaganomics has failed?

- Recession began in July 1981 -- three months before the President's Economic Recovery plan took effect.

- Recession, in practical if not strictly economic terms, has been with us since 1979:

  --The unemployment rate has been trending steadily higher since mid-1979, and has averaged 7.7% in the last two years.

  --The monthly prime rate has not fallen below 10% since 1978, and over the last three years has averaged 15.6%.

  --Real output increased at only a 0.5% annual rate from the first quarter of 1979 to the fourth quarter of 1981.

  --The level of industrial production declined 6.7% between January 1979 and February 1982.

  --Real after-tax corporate profits declined 23% from the first quarter of 1979 to the fourth quarter of 1981.

  --Productivity, measured by output per manhour, fell at a 0.2% annual rate from the first quarter of 1979 to the fourth quarter of 1981.

- In some ways this recesssion has been less severe than most, because of the President's economic plan:

  --Because of sharply lower inflation, real incomes have fallen substantially less than in most recessions.

  --The almost neglible price increases of late helped boost consumer demand by 2% in the first quarter.

  --Investment, which usually falls steeply, has held firm in an environment of reduced business tax rates.

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

  --Higher taxes would only depress economy and slow the recovery.

  --Failing to control spending growth lets the federal government absorb more of scarce capital, thus preventing economy from rebounding.

3. Shouldn't we eliminate indexing and the third year of last year's tax cut in order to add a measure of fairness to the President's budget?

- Even with the President's tax reduction proposal in place, taxes will rise an average of $85 per year (from 1980 to 1988) for a family earning $15,000 per year. (Note: the average tax increase for a $40,000 family will be $246, or three times as great).

- The third year and indexing are the only real hope for the lower-income families.

  --More than 40% of these families' tax cuts come in the third year, compared to 5% for the wealthy.

  --Indexing keeps low-income families from being pushed into higher tax brackets because of inflation; because the wealthy are already in the top tax bracket, indexing is of no consequence to them.

- Eliminating both the third year of the tax rate cut and indexing would boost taxes even more on this low-income family.

  --The increase in taxes would be $222 in 1986, and could be several hundred dollars per year by end of decade.

  --The only families who would not be affected by repealing the third year of the tax cut would be those with six-figure incomes, who received major benefits from the reduction of the top bracket from 70 to 50 percent -- a Democrat-sponsored proposal.

- Eliminating the third year of the tax rate cut and/or indexing would amount to an increase in the economy's tax burden.

  --This would slow down the economy, as tax increases have in the past, and thus:

  --Make it more difficult for unemployed low- and middle-income Americans to find a job, or for those who are underemployed to move up the income ladder and escape poverty.

    * Example. From 1959-1969, the number of families living in poverty dropped nearly 50%; from 1969-79, when the economy was growing more slowly, the number of poor families dropped only 6%.

AID TO FAMILIES WITH DEPENDENT CHILDREN

History

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

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

- The Program

  -- In order to qualify for AFDC, some adult recipients must enroll in a job-training program. While in the program, participants have the option of placing their small children in day care centers or leaving them in the care of friends, relatives, or neighbors.

  -- Benefit levels are determined by each State, with the Federal government paying 50 to 77% of the costs of benefits and 50% of the cost of State and local administration. With the exception of California, benefit levels are not indexed to the inflation rate.

- Coverage

  -- In 1950, 651,000 families received ADC benefits. By 1980, 3,642,000 families were receiving AFDC benefits, representing a more than five-fold increase in the number of recipients in just thirty years.

  -- In 1960, the average monthly benefit was $115 per family; in 1980 it was $276.

  -- In 1980 benefits ranged from $140 for a family of four in Texas to $569 in Oregon.

o Costs

-- It took 25 years -- from 1935 to 1960 -- for AFDC to reach the billion-dollar expenditure level.

-- By 1967 -- only seven years later -- the program had doubled again in cost to $2.3 billion, and in 1968 alone benefit costs rose by another half-billion.

-- By 1980 the program was costing $11.3 billion, in combined State and Federal costs for benefits, and in 1982 it is expected to cost $12.1 billion.

The President's Proposals

-- Require the States to establish workfare programs to assure that AFDC recipients perform useful tasks in the public sector when private sector jobs are unavailable, and to provide valuable job experience which can help recipients obtain private sector jobs.

-- Require that AFDC applicants demonstrate that they have exhausted possible private sector job prospects before receiving AFDC aid.

-- Require States to count federal or State energy assistance payments as income for determining eligibility and benefit levels for AFDC.

-- Include the income of all unrelated adults as part of the AFDC assistance unit for purposes of computing benefits.

-- Require States, by 1986, to assume full financial responsibility for erroneous AFDC payments.

-- Seek no further funding for the work incentives program (WIN).

Justification

- Ensure that Federal resources are targeted on the neediest, while discouraging individuals and families who are able to support themselves from continuing to rely on public assistance.

- Ensure a more accurate accounting of need.

  - -- Energy assistance, and income of all unrelated adults living in an AFDC household, are part of the aggregate resources available to an AFDC family.

  - -- Benefits should take into account all income sources such as these in order to determine the genuine level of need, and thus ensure that families with equivalent total resources are treated equally.

- Strengthen the AFDC employment incentives by requiring those who are able to work to do so.

  - -- States now have the option, but are not compelled, to establish workfare programs. As a result, only half the States are planning to institute them.

  - -- Requiring workfare in all states would ensure that all welfare recipients who are able to work, do so.

- Eliminate duplication.

  - -- WIN currently provides work opportunities for welfare recipients.

  - -- New work opportunities for welfare recipients created in the Omnibus Budget Reconciliation Act of 1981, including the Community Work Experience and Work Supplementation Programs, make WIN unnecessary.

- Save $1.2 billion in 1983, and nearly $6 billion over the next six years in Federal costs. Total Federal, State and local savings will be nearly twicw this much.

Questions & Answers

- Denying truly needy of assistance. Won't the truly needy be discouraged from seeking assistance as a result of the Reagan proposals?

  -- The truly needy would still be able to collect their AFDC benefits under the Reagan proposals.

  -- What the administration's proposals would do is encourage recipients to look for work before applying for welfare benefits by requiring them to exhaust all job prospects before becoming a recipient.

  -- This should not be seen as a disincentive for truly needy individuals from seeking assistance, but rather as an incentive towards becoming part of the workforce.

- Working for benefits. Isn't it unfair to force AFDC recipients to work for their benefits?

  -- If they are able to work, then it is only fair that they do so in order to receive benefits.

  -- It is particularly unfair to tax low-income Americans to support beneficiaries able to work but refusing to do so.

- Losing benefits. How many poor people will lose their benefits as a result of the president's proposed AFDC cuts?

  -- It is impossible at present to calculate exactly how many people will lose their benefits, but changes in eligibility proposed by the administration are very minor, and fully justifiable. They are:

    * Removing parent/caretaker from assistance rolls for vountarily quitting work, refusing employment or refusing a workfare assignment: This change would discourage reductions in work effort simply to become eligible for welfare.

    * Ending employable parent's benefits when youngest child reaches 16. Except in very unusual situations, a person of 16 is old enough to care for himself and should not have to have the parent in the home during daytime hours. In these cases, the employable adult should be expected to seek work rather than relying solely on public assistance.

* Including the income of all unrelated adults as part of the AFDC assistance unit: Unrelated adults often have significant resources to help support the AFDC family.

* Eliminate military service by the father as a reason for AFDC eligibility. Military personnel can sometimes avoid family financial obligations and shift their responsibility to the public assistance rolls, even when there is continued family contact. Families that were actually deserted would still be eligible for AFDC.

-- Benefits will continue to be available, in any case, to those who need them most.

o Encouraging the poor to go on welfare. Won't the prospective AFDC cuts encourage the working poor to quit work and go on welfare?

-- No, because even under the Reagan program, resources available to the poor will be greater if they are working. For example:

* In Texas, a family relying totally on public assistance would receive $617 a month; a family with the parent working at a minimum wage job would receive $913 per month.

* In Indiana, the comparable figures are $639 for a non-working family, and $847 for a working family.

-- Under workfare, recipients will not be able to quit the program and still receive benefits. This provides a strong disincentive for the working poor to quit work and go on welfare.

FOOD STAMPS

History

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

- Program:
  - -- The Federal government provides food stamps to recipients, who then redeem them at participating grocery stores for food.
  - -- The recipient (family) must have a gross income of no more than 130% of the poverty line.
  - -- In order to qualify for food stamps, able-bodied adults must register for and accept available employment.
- Major program changes:
  - -- Prior to January 1979, recipients were required to purchase food stamps at a certain percentage of the stamps' face value, that percentage being determined by the recipient's income level.
  - -- Effective January 1979, Congress eliminated the purchase requirement and made the stamps free to eligible recipients.
- Coverage:
  - -- In 1965, 400,000 persons received food stamps. By 1975 that number had increased by more than 42 times, to 17.1 million.
  - -- In 1981, more than 22 million people -- one out of every ten Americans -- received food stamps.
- Costs
  - -- In 1965 the food stamp program cost $35 million. By 1977 the cost had risen more than one hundred times to $5.4 billion.
  - -- Outlays doubled from $5.4 billion in 1977 to more than $11 billion in 1981.
  - -- Food stamp spending per participant, adjusted for the increase in the price of food, grew 12.4% between 1977 and 1981.

-- Erroneous food stamp issuance cost the federal government more than $1.1 billion in 1981.

The President's Proposals

-- Adjust benefits downward by 35¢ (compared to 30¢ presently) for each additional dollar in income either earned by the recipient or received through transfer payments.

-- Count energy assistance payments as income in determining household eligibility and benefit levels.

-- Discontinue exclusion of certain types of cash income in determining benefit levels.

-- Require able-bodied food stamp applicants to begin job search activities as soon as they apply for food stamps.

-- Phase-in complete state responsibility for erroneous payments by 1986.

Justification (General)

o Reestablish food stamps as a nutrition assistance program for the dependent poor rather than the massive income transfer program it has become.

-- According to the Census Bureau, nearly 40% of food stamp households had incomes above the poverty line.

o Save $3.1 billion over the projected Carter budget for 1983, while still providing food stamps for 19.1 million people, or 9% of the population, and thus ensuring that those who need assistance will continue to receive it.

Justification for specific program changes.

o For adjusting benefit levels downward:

-- Reducing benefits by an additional 5¢ for each additional dollar of income earned or received by the beneficiary will:

* Help to contain the explosive growth in cost of the program.

* Help restore, to the extent possible, family responsibility for the role of feeding one's family.

o For counting energy assistance and other types of cash income in determining benefit levels.

-- Determinations of eligibility should take into account income sources such as these in order to determine the genuine level of need, and thus ensure that families with equivalent total resources are treated equally.

o For requiring recipients to look for jobs.

-- It is entirely reasonable for the government to require recipients who can work to look for jobs. Social welfare programs should never be a substitute for gainful employment. Neither should they permit able-bodied recipients to choose not to look for work.

o For phasing in State responsibility for erroneous payments.

-- Federal payment towards erroneous food stamp issuance -- which cost more than $1.1 billon in 1981 -- reduces State government incentives to more diligently control waste.

-- Phasing in State responsibility for errors will encourage States to make elimination of fraud and waste in food stamps a top priority.

Questions & Answers

- Denying adequate nutrition. Won't cuts in food stamps condemn low-income Americans to inadequate nutrition levels?

  -- Food stamp benefits for the more than 4 million recipients with little or no income will be virtually unchanged by these proposals.

  -- Recipients with higher incomes will have their benefits adjusted only marginally, this to more adequately reflect their real need for nutrition assistance.

  -- More than 19.1 million Americans will continue to receive food stamps.

  -- In particular, food stamps will be available to all families with incomes below 130% of the poverty line.

- Counting energy assistance and other income sources. How can you justify counting energy assistance and other sources of cash income in determining food stamp eligibility?

  -- Energy assistance and other income sources are part of the aggregate resources available to a food stamp recipient.

  -- Determining eligibility should take into account all of a family's available income sources in order to determine the genuine level of need, and thus ensure that families with equivalent total resources are treated equally.

- Adjusting benefits downward. Won't the increase in marginal reductions in benefits (from 30 to 35¢) discourage food stamp recipients from working?

  -- The adjustment is relatively small, so that it should have little effect on incentives to work.

  -- The adjustment is necessary to contain the explosive growth in the cost of the program.

  -- Food stamp recipients are already required to look for work while receiving benefits, so this proposal will not introduce any disincentives to working.

o Waste, fraud and abuse. How can we be sure the Administration's efforts to ferret out waste, fraud and abuse won't deny some of needy adequate nutritional benefits?

-- Erroneous food stamp issuance cost the Federal government more than $1.1 billion in 1981; reducing this amount must be a top priority.

-- Fraud and waste hurt the needy by taking away money that could go to help those who need it most.

-- Eliminating fraud and waste in this and all programs is an important part of slowing overall spending growth, which is essential to achieving economic recovery, which in turn, provides the promise of more jobs and higher real incomes, and is thus the best way to help the poor.

-- Adequate protections are provided in the review process to ensure that those who need assistance will continue to receive it.

FEDERAL CHILD NUTRITION PROGRAMS

History

The Federal government began donating surplus food for use in elementary and secondary school lunch programs in 1936. Since that time, child nutrition programs have evolved to the point where we now have five federally supported programs.

o Programs

-- School Lunches:

* By far the most significant and extensive child nutrition program. Schools participating in the program are required to operate it on a non-profit basis, serve lunches meeting specific nutritional standards and serve free or "reduced price" lunches to needy children. In return, the federal government makes cash payments and provides commodity assistance to the schools.

* In 1950 7.8 million school children participated in the program. That number rose to 22 million in 1970, and 27 million in 1980.

* Currently there is a three-tier price system for the program which makes lunches available for paid, reduced price and free:

  - Paid lunches are available for children from families whose incomes are 185% of poverty and above, (56% of all participants) who must pay 85% of the cost of the meals.

  - Reduced price meals are available for children from families with incomes between 130 and 185% of poverty (about 6% of the participants), with the government paying approximately two thirds of the cost of the meals.

  - Free (totally subsidized) lunches are available for children from families with incomes below 130% of poverty (about 38% of participants).

-- School Breakfasts:

* In 1966 Congress established a pilot school breakfast program for schools with a high percentage of needy students who traveled long distances to school.

* In 1975 the program was made permanent and now provides reduced price or free breakfasts to all children from families at or below 185% of poverty level.

-- Special Milk Program:

* Program established in 1954 to help clear surplus milk from the market through government purchase and donation to schools.

* The program now subsidizes the cost of milk to schools that do not participate in other federally subsidized meal programs.

* Currently, more than 1 million students receive milk subsidies under this program.

-- Summer Meal Program:

* Established in 1969 for summer school students attending public schools, this program is fully subsidized for all recipients, regardless of need.

* There were 1.9 million recipients in this program in July of 1981.

-- Child Care Feeding Program (CCFP):

* Established in 1975, this program subidizes the feeding costs of pre-school children at 68,000 child care feeding centers throughout the country.

* The program currently serves 850,000 children.

o Costs

-- School Lunch Program.

* In 1950 the school lunch program cost the Federal government $120 million. In 1970 the program cost had more than quadrupled to $602 million and by 1980 it had quadrupled again to $2.3 billion.

* Average federal meal costs in constant dollars rose from 31¢ in 1970 to 60¢ in 1981. During the same period, average student payments dropped from 60¢ to 34¢.

-- Other Programs:

	Cost 1965	Cost 1975	Cost 1980
School Breakfast	-0-	$86 m.	$288 m.
Special Milk Program	$98 m.	124 m.	157 m.
Summer Meal Program	-0-	50 m.	121 m.
CCFP	-0-	46 m.	216 m.

The President's Proposals

o School Lunch: No major or basic changes recommended for FY 1983. Last year:

-- Income qualification limit for "reduced price" meals was changed from 195% of poverty with a standard deduction, to 185% of poverty without a standard deduction.

-- The income limit for a free lunch was raised from 125% of poverty to 130%.

-- The per-meal subsidy to children from middle- and upper-income families was reduced by one-fourth.

o School Breakfast and CCFP. Combine programs into a block grant to the States.

o Summer Meal Program. Provide no further funding for this program. Last year, administration of program was essentially restricted to school food authorities and school districts where at least 50% of the students were defined as needy.

o Special Milk Program. Provide no further funding for this program. In FY 1982, the program was restricted to only those schools which had neither a lunch or breakfast program.

o Increase efforts to verify income of parents applying for free and reduced price meals.

Justification

o Eliminate unjustified subsidies to middle- and upper-income groups.

-- Prior to last year, low-income (and all other) taxpayers were being forced to pay a 32¢ per meal subsidy for each school lunch eaten by the children of middle- and upper-income families. This subsidy has been cut by one fourth. (The administration had proposed eliminating it.)

-- Nearly 90% of the more than 1 million students receiving milk subsidies under the Special Milk Program are from families with incomes in excess of $16,000 a year.

-- The Summer Meal Program has no income requirement, and thus students from middle- and upper-income families are eligible for benefits.

- Save money.

  -- The Reagan proposals would save $1.3 billion over what was proposed under the Carter budget for 1983.

- Reduce fraud and abuse.

  -- The USDA Inspector General estimated that nearly $500 million may have been overclaimed in the school lunch program in 1980 due to:

    * Invalid applications.
    * Inflated meal counts.
    * Lack of income verification.

  -- Increasing efforts to verify the income of parents applying for free or reduced price meals for their children will be an important step in reducing these high levels of fraud and abuse.

- Reduce administrative duplication and overhead.

  -- Other federal assistance programs, such as Food Stamps, provide adequate assistance to the needy, thus making the Summer Meal Program duplicative and unnecessary.

  -- The nearly $700 million in subsidies for milk consumption in other federal meal programs makes the Special Milk Program similarly duplicative and unnecessary.

  -- School Breakfast and Child Care Feeding Programs can be administered more effectively and at less cost on the State level. Converting these programs into State block grants would reduce administrative burdens by eliminating more than 40 pages of program regulations.

Questions & Answers

- Children going hungry. Won't the children of low-income families go hungry due to tightening eligibility requirements and the elimination of the Summer Meal and Special Milk Programs?

  -- No changes which affect the truly needy were made or have been proposed in the School Lunch program.

    * Reductions made in 1981 only affected subsidies to children from families that were 130% above the poverty line.

    * No basic changes in the program have been proposed for this year.

    * The 195% to 185% of poverty change in the income requirement to receive reduced price meals is largely a technical change which will not reduce needy children's access to adequately nutritional meals.

    * Students from all families below 130% of the poverty line will continue to be eligible for free lunches.

  -- Termination of Special Milk and Summer Meal Programs will not hurt the truly needy.

    * The summer meal program (which is fully subsidized for all recipients, regardless of need) now overlaps other Federal assistance programs like Food Stamps, which provides nutrition aid directly to the needy.

    * Recipients of the Special Milk Program aren't needy. Nearly 90% are from families making more than $16,000 a year. The other 10% are eligible for milk consumption subsidies in other Federal meal programs, such as Food Stamps.

- Schools dropping out of program. By eliminating school lunch subsidies to middle- and upper-income families, won't the smaller total levels of federal assistance available encourage schools to drop out of the program, thus hurting low-income children?

  -- No. Subsidies to middle- and upper-income families have not been eliminated, but simply reduced by one-fourth.

  -- School enrollments have declined by approximately 2 million children over the last three years. Decreases in school lunch participation parallel this enrollment drop.

  -- Furthermore, 99% of all school districts have remained in the National School Lunch Program this year. Nearly half of the schools that did leave the program did so because of school consolidations or closings.

o Block Grants. How can you assume that States will provide the needed nutritional assistance under the block grant when they are also expected to make up the difference in other entitlement programs?

-- Funding for the grant will come from the Federal government.

-- States and localities are closer to education-related problems, and historically have been more responsive than the federal government to locally felt needs.

-- States and localities more effectively target these resources according to individual needs.

-- Block grants will reduce administrative burdens by eliminating more than 40 pages of detailed federal regulations and requirements for school breakfasts and CCFP, thereby leaving more money available for genuine nutritional assistance.

o Ketchup as a vegetable. How can nutrition be guaranteed when the USDA defines ketchup as a vegetable?

-- Congress directed the Department of Agriculture to review school lunch meal requirements to save money without impairing the nutritional value of the meals.

-- The ketchup regulations were withdrawn because they did not adequately meet these criteria, and therefore will not be reissued.

-- Instead, the department plans to promote cost savings through its "offer vs. serve" regulations. This method of food service permits students to decline food they do not intend to eat.