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FAIRNESS II

An Executive Briefing Book

White House Office of Policy Information
May 1, 1983

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

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

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

Kevin R. Hopkins
Special Assistant to the President
Director, White House
Office of Policy Information

Harold C. Gordon
Senior Policy Analyst
Office of Policy Information
The White House
Washington, DC 20500 202/456-6250

William A. Keyes
Senior Policy Analyst
Office of Policy Information
The White House
Washington, DC 20500 202/456-2762

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THE EXPLOSION IN SOCIAL SPENDING

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

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

-- The U.S. spent $28.7 billion on social programs.

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

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

-- Examples:

* AFDC grew from $827 million in 1963 to $1.7 billion in 1969 -- an increase of more than 100%.

* Non-cash transfers rose from $2.4 billion in 1965 to $15.4 billion in 1970 -- a increase of 5-1/2 times.

o **During the 1970s, the trend accelerated.**

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

-- More examples:

* Food stamps' cost jumped nearly 20 times -- from $577 billion in 1970 to $11.3 billion in 1981.

* Spending on both child nutrition and subsidized housing increased by more than 10 times.

* SSI and Guaranteed Student Loans -- two programs which essentially did not exist in 1970 -- spent $9.5 billion in 1981.

o **As a result, social spending consumed an ever-larger share of the nation's GNP.**

-- Expenditures on basic retirement, disability and health programs consumed 3.7% of GNP in 1963; in 1981, they took 8.3% -- an increase of 125%.

-- Other nondefense payments for individuals rose from 1.6% of GNP in 1963 to 2.7% in 1981 -- an increase of nearly two-thirds.

-- In sum, all non-defense spending (excluding interest payments) rose from 9.3% of GNP in 1963 to 10.6% in 1970 to 14.9% in 1981 -- an increase of nearly two-thirds in just 18 years.

#

SOURCES OF THE SPENDING EXPLOSION

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

-- Between 1965 and 1980, the number of federal programs providing means-tested cash or in-kind benefits doubled.

-- During this time, the number of people receiving such benefits soared by 300%, from 9 million to 35 million, although the U.S. population grew by only 17%.

-- While aid recipients, on average, participated in only one means-tested program in 1965, by 1980 they participated in 3 to 4.

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

-- Benefits were excessive and poorly targeted, as indicated by Census survey data for 1981.

* By 1981, the year before the President's first budget fully took effect, $16.9 billion, or 36% of all benefits, went to families whose cash benefits and other cash income placed them above the poverty line. These families included 23 million people.

* The lack of targeting was so severe that $8.3 billion in aid (18% of all benefits) went to families with cash incomes above 150% of the poverty level. These families included 12.7 million people.

* However, these statistics understate the lack of targeting because they ignore the value of in-kind benefits (non-cash benefits, such as medical, nutrition and housing assistance) in measuring individual and family well-being.

  - These benefits constitute nearly two-thirds of all means-tested aid covered in the survey.

  - When these benefits are counted as part of a family's resources, $39.2 billion in means-tested programs -- 83% of all benefits -- went to non-poor families.

  - Also, $20.0 billion, or 42% of all benefits, went to families with total cash and in-kind incomes above 150% of the poverty line.

  - Examples: AFDC (27% of benefits went to families with incomes above 150% of poverty); SSI (62%); food stamps (25%); medicaid (53%); free and reduced price school lunch (33%); public housing (47%); and rent subsidy (54%).

-- Waste and error were rife.

* States, which administer the AFDC, medicaid, and food stamps programs, improperly paid out $3.5 billion in benefits in FY 1981.

* In food stamps alone, $1 of every $10 was improperly paid.

* In 1980, half a billion dollars of medicaid insurance payments could have been collected, but were not.

* States were failing to ensure that parents who had left their families met their child support obligations. Only one-third of AFDC recipients were covered by court orders, and only half of covered persons were receiving full payment. Overall, about $1 billion in court-ordered payments for AFDC recipients went uncollected in 1981.

* In FY 1981, as much as $500 million was overpaid in the school lunch program.

-- Programs were poorly designed.

* Work disincentives were so great in aid programs that only 12.6% of adults receiving AFDC and 17.7% of food stamp household heads aged 18 to 59 worked at all in FY 1981 (prior to the 1981-1982 recession).

* In the Section 8 existing housing program, amounts tenants pay for rent is determined by income. Because tenants are not actually involved in negotiating unit rents and because the government determines "fair market rents," rents for units in the Section 8 Existing Housing Program average 26% above rents for comparable non-subsidized units.

* Because of the lack of cost control incentives in medicaid, medicaid costs rose 354% from 1971-1981, or an average of 16.3% per year, while the number of medicaid recipients increased only 1.3% per year -- that is, costs increased 13 times as fast as the number of recipients even though the general price index increased an average of only 8.4% per year.

#

ECONOMIC CONSEQUENCES OF THIS SPENDING EXPLOSION

o Inflation worsened.

-- From 1960 to 1965, prices never rose more than 2% in a year.

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

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

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

-- A pound of hamburger costing 57¢ in 1960 had risen to $1.58, and was heading toward $2.00.

o Interest rates rose.

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

-- Since 1965, the prime rate, on an annual average basis, has not fallen below 5%.

-- The monthly prime rate has not fallen below 10% since 1978, and from 1979-1981, the prime rate averaged 15.6%.

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

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

o Unemployment worsened.

-- Whereas unemployment averaged 4.5% in 1951-1960 and 4.7% in 1961-1970, it averaged 6.4% in 1971-1980 -- more than one-third higher.

-- Whereas the lowest annual unemployment rate in the 1951-1960 period was 2.9%, and in the 1961-1970 period was 3.5%, the unemployment rate never fell below 4.9% on an annual basis in 1971-1980, and never fell below 5.8% on an annual basis in the last half of the decade.

o Effect on the family.

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

-- Real family incomes -- that is, incomes adjusted for inflation -- were actually lower in 1980 than in 1969.

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

-- A Congressional Joint Economic Committee report calculated that the slowdown in productivity growth in the 1970s cost the average household $3,700 in income in 1978.

#

THE EFFECT ON POVERTY

- **Key question: If federal social spending significantly improved the lot of the poor, wouldn't some economic deterioration be a minor price to pay?**

  -- Follow-up question: Did the explosion in federal social spending actually improve the lot of the poor?

- **Three measures of the poverty level:**

  -- Official poverty level (most common measure): Includes family's private income plus government cash assistance.

  -- Net poverty level: Includes above, plus government in-kind assistance (e.g., food stamps, housing aid, medicaid).

  -- Earnings-only poverty level: Includes only family's earnings (How many people would be poor if not for government aid?)

- **The course of the "official" poverty level.**

  -- Between 1950 and 1965 (the year the "Great Society" began), official poverty fell from an estimated 32% to 17% -- a drop of 15 points in 16 years.

  -- Between 1965 and 1969, official poverty fell from 17% to 12% -- a drop of 5 points in 5 years, exactly what should have been expected based on previous trends.

  -- Then, after two decades of reasonably steady progress, improvements in poverty slowed in the late 1960s and 1970s.

  * A higher percentage of the public (13.0%) were officially in poverty by 1980 than at any time since 1967.

  * There were more people in poverty in 1980 than in 1966 (29.3 million vs. 28.5 million); there were five million more people in poverty in 1980 than in 1969.

  -- It was not until the budgets of 1967 and 1968 that the Great Society programs were reaching enough people to have a sizable impact on the budget, and thus that social welfare expenditures began to take off -- yet it was at that precise time that progress in reducing poverty came to a grinding halt.

o **The course of the net poverty level.**

-- Net poverty is a far more relevant measure of a family's financial condition than "official" poverty, because food stamps, housing aid, and the like add to a family's real resources just as cash assistance does.

-- According to figures compiled by Charles Murray, net poverty declined steadily from 1950 to 1968, falling from 30% to 10%.

-- Net poverty continued to decline to 6.2% by 1972.

-- Yet despite a tripling of in-kind assistance (in inflation-adjusted dollars) during the 1970s, net poverty stood at 6.1% in 1980 -- almost identical to the 1972 level.

o **The course of earnings-only poverty.**

-- This is the crucial measure.

* Government's goal should be to create the economic conditions that will help Americans become financially independent.

* President Lyndon Johnson in 1964: "We are not content to accept endless growth of relief or welfare rolls. We want to offer the forgotten fifth of our population opportunity and not doles. ... The days of the dole in our country are numbered."

-- Between 1950 and 1963, the earnings-only poverty rate fell by more than one-third, to 17.9%.

-- The proportion of earnings-only poor continued to drop, falling to 12.0% in 1969.

-- But at that time (again, just when the poverty programs were taking their full effect), the declines in earnings-only poverty stopped, despite the fact the economy was in an economic boom.

* For non-aged persons, the earnings-only poverty rate reached 17.2% in 1974, and rose to 21.1% by 1981.

* Indeed, once the variations in economic growth are factored out, one conclusion is inescapable: the increases in social welfare spending do not account for any overall reductions in earnings-only poverty during the last three decades.

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

#

THE EFFECT ON THE POOR

- **Not only has the explosion in social spending failed to reduce real levels of poverty, but it has actually made life worse in many ways for low-income Americans.**

- **The poor have suffered the most from economic deterioration.**

  -- Despite receiving an increase in dollar benefits of about one-third over the 1970s, the average AFDC recipient lost nearly 30% in benefit purchasing power during the decade because of inflation.

  -- Inflation in 1979 alone translated into a loss to a four-person poor family of $750 in purchasing power.

  -- Because the poor spend up to 70% of their family budgets on necessities, there were very few ways they could cut back to beat inflation.

  -- Yet the economic slowdown, and its attendant loss of job opportunities, left the poor with no real alternative but to subsist on these shrinking real resources

- **The poor have become more, rather than less, dependent on federal aid for their economic existence.**

  -- According to figures compiled by Charles Murray, whereas in 1950 only 3% of the non-poor population depended on government aid to keep them out of poverty, by 1968, this level had increased by three times, to 9%, and by 1980, it had nearly doubled again, to 17%.

  -- Indeed, the Great Society programs' economic disincentives to becoming self-sufficient were so great that the proportion of low-income Americans holding a job fell by 1.4 points between 1968 and 1980.

- **The poor have suffered from increasing family disintegration.**

  -- The Great Society programs were so structured that they rewarded family break-up (such as through the provision of higher benefits for families where the husband was not present) and likewise increased the cost of families remaining together.

  -- At least partially as a result, the percent of intact husband-wife low-income families fell from 72% in 1965 to 49% in 1980 -- a drop of one-third.

- **The dilemma.**

  -- Because of this, low-income Americans, to an increasing extent, depend on government aid to help meet their basic needs, putting further upward pressure on social spending budgets.

  -- The explosion in social spending to meet these demands has worsened economic conditions, making it nearly impossible for the poor to become financially self-sufficient.

  -- Key question: How to slow the growth of social spending while maintaining aid to those who truly need it.

#

THE ANSWER: ECONOMIC GROWTH WITHOUT INFLATION

o **The problem:** How to improve low-income Americans' economic conditions (i.e., increase their incomes) while simultaneously preserving overall economic health.

o **The wrong answer:** Throwing money at the problem.

-- The painful consequences of the social spending explosion of the last decade and a half speak for themselves.

-- These consequences are inevitable whenever spending is left to grow unchecked:

* Every dollar spent by the federal government must be taken away from the private sector, either through taxation or borrowing.

* Left with fewer resources, the private economy's activity will be lower, and its job opportunities fewer.

* Since the federal government is generally far less efficient at creating jobs than is the private sector, the loss of private sector jobs brought about by a transfer of resources to the federal government will almost always be greater -- often substantially greater -- than the number of jobs created by the federal spending. Hence, the total number of jobs in the economy will fall below what it otherwise would have been.

* At a given level of monetary growth, higher government spending also typically produces higher inflation rates because:

- Fewer goods and services, at the same level of monetary growth, causes prices to be bid up.

- Growing budgets generally create pressures for faster monetary growth which, everything else being equal, only further fuels inflation.

-- The poor suffer the most from both unemployment and inflation.

o **The right answer:** Economic growth without inflation.

-- Economic growth creates jobs.

* During the years 1950-1980:

- In the 18 years in which the economy grew by 3% or more, an average of more than 1.8 million new jobs were created each year.

- In the 13 years in which the economy grew by less than 3%, an average of less than 710,000 new jobs were created each year -- nearly two-thirds less.

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

* Jobs are vital; only through productive private sector jobs can low-income Americans gain a foothold on the economic ladder, and eventually -- as they begin to climb the ladder -- become economically self-sufficient.

* Even in the short-term, low-income individuals who work are economically better off than those who do not. For a person (e.g., divorced mother of two) at the poverty level, her income will be from 61% to 149% higher if she has a full-time minimum wage job than if she has no job and tries to subsist only on government assistance.

-- Economic growth helps the poor escape poverty.

* According to a calculation by Charles Murray, the official poverty rate fell by nearly two-thirds over 1950-1968, when economic growth averaged 4.1%.

* The poverty levels remained essentially unchanged between 1969 and 1980, when economic growth averaged 2.9% -- nearly one-third lower than in 1950-1968.

* In fact, every 10% increase in economic growth is associated over this period with a 7% decline in the poverty level.

-- Keeping inflation down protects these gains.

* Lower inflation leads to lower unemployment.

  - From 1970 to 1972, the inflation rate fell by more than a third. In 1973, the unemployment rate fell below 5% for the first time in three years.

  - From 1974 to 1976, the inflation rate fell by more than half; from 1975 to 1979, the unemployment rate fell by nearly one-third.

* Lower inflation increases the poor's purchasing power.

  - A poverty level family with a constant income will have nearly 5% greater purchasing power in a year in which inflation is 5% instead of 10%.

  - This low-inflation dividend is especially important to the poor, who spend the large majority of their incomes on necessitites.

#

THE ECONOMIC RECOVERY PROGRAM

o **Reduce the growth of federal spending.**

-- Spending grew by 17.4% in 1980 and 14.0% in 1981.

-- President Carter had planned to reduce spending growth by 1984 to 8.9%; President Reagan's budget will hold spending growth to 5.4% -- more than a third lower.

-- Excluding uncontrollable interest payments, President Carter's 1984 budget was to have held spending growth to 10%; President Reagan's 1984 budget will hold spending growth to 4% -- nearly two-thirds lower.

-- Whereas spending grew an average of $79 billion per year over the three years from 1979 to 1982, it would grow by only about half that much -- $43 billion -- in 1984.

o **Reduce tax rates.**

-- Individual income tax rates will have fallen by 25% by July of this year, helping to offset much of the huge tax increases that had been planned by the previous Administration.

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

-- Business tax rates have been substantially reduced through accelerated depreciation, which will help spur investment as the economy recovers.

-- President Reagan has pledged to veto attempts by Congress to increase taxes on Americans through repeal or postponement of either the third year of the tax rate cut or indexing.

o **Reduce unnecessary regulation.**

-- Task force under direction of the Vice President has pared unnecessary regulations that would have imposed on the economy an additional one-time investment cost of as much as $11 billion and annually recurring costs of $6 billion.

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

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

- **Support stable and moderate monetary growth.**

-- Needed to keep inflation and interest rates down.

#

THE PRESIDENT'S BUDGET FREEZE AND REFORM PLAN

o **Key points:**

-- Maintains and advances President's Economic Recovery program.

-- Results in almost no real growth in the 1984 budget.

-- Saves at least $303 billion in budget outlays over 1984-1988 -- even more if the economy grows faster.

-- Reduces spending from 25.1% of GNP in 1983 to 22.9% of GNP in 1988.

-- Preserves necessary spending for those in need.

-- Maintains essential defense build-up at $55 billion lower 5-year cost.

o **Budget totals at a glance:**

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

o **Elements of the plan:**

-- 1984 spending freeze measures.

* No increase in civilian military pay and retirement.

* 6-month COLA freeze for Social Security and related indexed benefits.

* Freeze on aggregate non-defense discretionary programs, medical provider reimbursement and farm price supports.

-- Long-term structural reform.

* Bi-partisan Social Security Solvency Plan which cuts $79 billion from 1984-88 spending-revenue gap.

* Health care reform and efficiency incentive package involving $58 billion in 5-year savings from Medicare/Medicaid and private health insurance cap.

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

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

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

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

-- Contingency tax increase proposal.

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

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

#

ECONOMIC PROGRESS: TO DATE

o **Inflation**

-- The inflation rate averaged 12.9% in 1979-1980.

-- Inflation fell to 8.9% in 1981 and to 3.9% in 1982 -- the lowest level in a decade.

-- Prices are virtually unchanged over the last five months.

-- Gasoline prices are at their lowest point in three years.

-- As a result, a median-income family with a fixed income has $1850 more in purchasing power than they would have had inflation remained at the 1979-1980 level; a poverty-level family living on a fixed income has $753 more in purchasing power than they would have.

o **Interest rates.**

-- The prime rate.

* Hit 21.5% in January 1981.

* Is now down to 10.5% -- a cut of more than half -- and the lowest level since October 1978.

-- 90-day Treasury bills.

* 11.4% in 1980, peaking at 16.3 in May 1981.

* Now down to 8.4%, a decline of nearly one half.

-- Home mortgage rate.

* Heading upward from 12.7% in 1980 to 14.7% in 1981 to peak of 15.9% in May 1982.

* Has now gone down for eight of last nine months, and is at two-and-a-half-year low, reducing monthly cost of $50,000 mortgage by $200 over last year's peak rate.

o **Average real hourly earnings.**

-- Fell by 8.5% from 1978 to 1981.

-- Rose in 1982 for first time in four years.

o **Savings rate.**

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

-- Rose in both 1981 and 1982.

-- 1982 rate of 6.5% is highest since 1976.

o **Productivity.**

-- Fell in each of 1979 and 1980.

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

o **Stock market.**

-- Market level (Dow-Jones industrial average) in every year from 1977 to 1980 was lower than 1976 level.

-- Market reached all-time high in March 1983, one-third higher than 1980 level, and up by one-half since just last August.

o **Unemployment.**

-- Unemployment had been rising almost steadily since mid-1979.

-- Through February, initial unemployment claims had been declining for 4 of the last 5 weeks.

-- The unemployment rate has declined a full one-half point in the last three months. While it may fluctuate somewhat for a few months, the peak has clearly been reached.

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

-- The economy grew at a brisk 3.1% in the first quarter of 1983 -- the largest quarterly rise in 2 years.

-- The index of leading indicators has risen for six consecutive months -- up 3.5% in January, the biggest gain in 33 years, and up another 1.4% in February another strong gain.

-- Industrial production rose 1.3% in January -- the largest increase in a year, and rose again in February for the third consecutive monthly increase.

-- The housing sector is already experiencing strong recovery.

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

* Permits more than doubled over the same period.

* New home sales have grown by 63.2% since April 1982.

* In January, inventories of unsold homes have recently hit their lowest levels recorded in more than a decade.

-- Automobile sector.

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

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

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

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

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

#

ECONOMIC PROGRESS: THE FUTURE

- **The recovery.**

  -- Economic growth.

  * The economy should grow at least 4.3% in real terms in 1983, and 4% each year thereafter through 1988.

  * This is a cautious forecast; some economists think the economy will grow much more rapidly.

  * Still, such a recovery is in sharp comparison to most previous recoveries, which did not last.

    - Late 1980 "recovery" lasted only a few months.

    - 1970 recovery lasted only three years.

    - 1958 recovery lasted only two years.

  -- Unemployment.

  * Unemployment rate should fall steadily from 10.0% in 1983 to 9.1% in 1984 to 6.2% by 1988.

  * This recovery will create at least 15 million new jobs by the end of 1988.

    - This compares very favorably with the 21 million new jobs throughout all of the 1970s.

    - Under the Administration's economic assumptions, there will be 2.6 million new jobs this year, and another 2.6 million in 1984, for a total of 5.2 million new jobs by the end of 1984.

- **Inflation.**

  -- Inflation (CPI) should remain at or below 5% every year through 1988, and will be trending downward.

  * The inflation rate has not remained at or below 5% for more than two years running since the 1960s.

  -- In fact, the only other two postwar recoveries lasting as much as 5 years or more brought with them huge jumps in inflation.

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

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

o **Interest rates.**

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

#

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

o **<u>The budget totals are more than sufficient</u>.**

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

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

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

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

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

* The estimated number of elderly, non-elderly poor and non-poor unemployed is <u>65 million</u>.

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

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

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

o **<u>Funding for key social programs is sufficient</u>.**

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

-- <u>Adjusted for inflation</u>, the proposed spending levels are:

* About <u>11% higher</u> than in 1980.

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

* About <u>4% higher</u> than the average amount spent in the last four years.

* <u>Within 1%</u> of the FY 1984 levels proposed by President Carter for the 15 programs.

* <u>Equal to or greater than</u> the 1980 spending levels for <u>each of the six largest</u> spending programs, including medicare, medicaid, housing assistance and food stamps.

#

2. **Why is it fair to make any cuts in programs for the poor?**

- **Almost all programs for the poor spend significant amounts of money on the non-needy.**

  -- For example, of the $47 billion in means-tested programs reflected in Census survey data for 1981 fully $20 billion, or 42%, of those funds went to families whose total incomes, including in-kind benefits, were at or above 150% of the poverty line.

  -- 150% of the poverty line in 1981 was $13,930 for a family of four -- an income level equal to 92% of the median annual earnings of employed workers that year.

  -- Thus, a large share of program beneficiaries were receiving nearly as much as or more than was earned by those who were being taxed to support them -- a truly unfair situation.

- **Program changes made in the first two years of the Reagan Administration are designed to reduce or eliminate benefits to those who do not deserve them, and to target them instead to the truly needy.**

  -- In food stamps, Congress approved the Administration proposal to limit food stamp eligibility to families with incomes no higher than 130% of the poverty level.

  -- In the school lunch program, the only significant change was to cut back sharply on the subsidy for meals served to children from middle- and upper-income families with incomes above 185% of the poverty level. Poor children continue to get their lunches free.

  -- In student financial assistance programs, where wealthy parents could take out low-interest federal loans for their children and invest their own money in money market funds, aid has been more precisely targeted to the neediest. Families with annual incomes above $30,000 are now required to demonstrate need for guaranteed student loans, and grants are more carefully directed to low-income students.

- **In the 1984 budget, only 20% of the changes in 5 key means-tested entitlement accounts (AFDC, SSI, medicaid, food stamps and child nutrition) can be regarded as benefit reductions, in this effort to target funds more carefully.**

  -- The remaining 80% reflects program efficiencies and an attempt to reduce further the very high rate of errors -- people getting more benefits than they are legally entitled to.

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

-- What is fair about inflation?

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

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

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

#

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

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

  -- These programs rose most rapidly in the 1970s, jumping 2-1/2 times in real terms.

  -- Human resource programs comprise 85% of the non-defense, non-interest budget, and therefore must be the subject of a majority of the budget changes.

  -- But reductions in budget growth in these programs have been designed to reduce or eliminate benefits to those who do not deserve them, while preserving aid to the needy.

  -- Thus, reductions in program levels do not mean reductions in aid to the poor, but instead only a restoration of programs to their intended purpose.

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

  -- $55 billion in savings in defense for 1984-1988.

  -- Freeze on farm price supports.

  -- No increase in government-employees' pay.

  -- Further reductions in subsidies for Amtrak and wasteful and uneconomic energy projects.

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

  -- Cut in the postal subsidy, except for charitable and other special groups.

  -- Ending of direct government involvement, with budgetary dollars, in synfuels.

  -- Reduction in the dairy subsidy level for the first time.

  -- Reduction in "impact" education aid (much of which went to wealthy communities) for the first time -- tried by every previous President since Eisenhower.