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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

Tile: Economic Plan

MEMORANDUM FOR: Red Caveney
Deputy Director, Office of Public Liaison

FROM: Robin Raborn
Office of Public Affairs, OMB

SUBJECT: Specialized Fact Sheets/Talking Paper for Special Interest Groups

As requested by your office, attached are the Fact Sheets/Talking Papers for distribution and use by the Public Liaison office. This includes the first segment delivered by Wayne Valis yesterday and completes the project as we discussed. The sheets have been reviewed by the policy advisers in their respective fields.

Enclosed is a complete listing of the papers, by department and jurisdiction, as well as a breakdown by interest groups of programs of particular concern to that constituency. This is our rough suggestion of how papers should be targeted. Obviously, you will be able to assess the interests of each group more definitively. I would like to discuss this targeting with you.

Red, I want to stress that these sheets were compiled under considerable time restraints and are therefore not suitable for use by those who require more sophisticated advocacy papers.

We greatly appreciate the superb effort given by Laura Broderick, Congressman Phil Crane's Press Secretary, without whom we could not have completed this assignment.

Robin Raborn

DIVISION OF PROPOSED CHANGES BY DEPARTMENT

Business:

- Some of the ways the President's Economic Plan will affect business.

Department of Agriculture:

- How the President's Economic Plan will affect Agriculture.
- Child Nutrition: elimination of subsidies for the non-needy and streamlining existing programs.

Department of Housing and Urban Development

- Transfer of function of rehabilitation loan fund.
- Extension of timetable for completing public housing modernization.
- Restructuring HUD's community development support assistance.
- Reduced level of subsidized housing.
- Elimination of the self-help development program at HUD.

Health and Human Services

- Reduction of Federal regulation of health care industry.
- Eliminate unnecessary Federal subsidies for the development of health maintenance organizations.
- Disability insurance.

Department of Education

- Reducing Federal support to museums.
- Reduction of funding for the National Institute of Education.
- Consolidating elementary and secondary education programs.
- Reduced funding for vocational education.

Department of Transportation

- Reduction in the Highway Safety Grants programs.
- Reducing Federal funding of Urban Mass Transit systems.
- Termination of funding for Conrail.
- Reduction in Amtrak subsidies.
- Reduction in Federal Mass Transit Capital grants.
- Phase out of Federal Mass Transit Operating subsidies.
- Reduced funding for the Northeast Corridor Improvement project.

Department of Energy

- Reduction of energy conservation programs.

Department of Labor

- Stopping unemployment insurance payments to people who will not take other jobs.
- Trade adjustment assistance.
- Unemployment insurance extended benefits in States with high unemployment.
- Black lung disability trust fund.

Other Proposed Savings:

- National Endowments for the Arts and Humanities -- reducing Federal support for the arts and humanities.
- Corporation for Public Broadcasting.
- Major initiatives in the Department of Interior.
- Postal Service -- reduction of public service and revenue foregone subsidies to the Postal Service.
- Corps of Engineers -- limited deferrals of some water resource development construction.

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TALKING POINTS
Some of the Ways the President's Economic Plan will Affect Business

Summary

President Reagan's program calls for fundamental redirection in the role of the Federal Government as it affects business. Besides the obvious advantages that a general improvement in the economy will offer business, the program includes:

- Reduction in business taxes.

- Reductions in the burden and the intrusion of Federal regulations.

- A new commitment for a stable monetary policy.

Encouraging Productive Investments by Business and Industry

A major part of the President's tax proposals -- called the Accelerated Cost Recovery System -- would establish a new system for treating investments by business and industry. This system will determine the periods of time over which the costs of investments can be "recovered" or "written off" when calculating taxes. That is, the system will result in fixed periods, known in advance, over which the cost of investments in particular plant and equipment can be charged off as expenses of doing business and thus deducted from gross income before calculating taxes.

The New System

Most business property will for, purposes of calculating taxes, fall into one of the three write-off periods listed below. An accelerated costs recovery schedule is provided for each.

- 3 years: This class consists of autos and light trucks and machinery and equipment used for research and development. Expenditures can be written off in 3 years: 33% in the first year, 45% in the second year, and 22% in the third. An investment credit of 6% will also apply to this class, up 2-2/3 percentage points from present law for property written off in 3 years.

- 5 years: This class consists of other machinery and equipment, except for certain long-lived public utility property. After a phase-in period, the original cost of additions can be written off according to an accelerated 5-year schedule:

  - 20% in the year acquired.

  - 32% in the 2nd year.

. 24% in the 3rd year.

. 16% in the 4th year.

. 8% in the 5th year.

The full 10% investment credit will be allowed for this class.

- 10 years: This class consists of factory buildings, retail stores, and warehouses used by their owners; and public utility property for which present guidelines exceed 18 years. The accelerated schedule for deductions is as follows:

. 10% in the 1st year.

. 18% in the 2nd year.

. 16% in the 3rd year.

. 14% in the 4th year.

. 12% in the 5th year.

. 10% in the 6th year.

. 8% in the 7th year.

. 6% in the 8th year.

. 4% in the 9th year.

. 2% in the 10th year.

As in present law, the 10% investment credit applies to public utility property in this class, but is not generally available for real property.

"Audit proof" lines would be established for write-off of other depreciable real estate on a straight line basis (i.e., the same % share of the original cost each year). These are:

- 15 years: for other nonresidential buildings, such as offices and leased stores and for low-income housing.

- 18 years: for other rental residential structures.

Effective Dates

The new system would be effective for property acquired or placed in service after December 31, 1985. A 5-year phase-in period would provide progressively shorter recovery periods for long-lived machinery and buildings acquired before 1985.

Reduced Tax Burden

The revenue from businesses collected by the Federal government is expected to be reduced by the amounts shown below.

Fiscal Years ($ in Billions)

	1981	1982	1983	1984	1985	1986
Before Interaction with Individual Tax:	$2.5	$9.9	$19.5	$31.9	$47.2	$63.3
After Interaction with Individual Tax:	$2.5	$9.7	$18.6	$30.0	$44.2	$59.3

Principal Changes from the Current System

The proposed new capital recovery system improves upon the current system in several ways. Specifically, it would:

- Substantially increase the incentive for business investments for increased productivity and sustained economic growth.

- Provide the basis for creating new jobs.

- Improve U.S. competitive position in world markets.

- Reduce the accounting and tax planning burden for taxpayers, by replacing the current, complex concepts such as "useful life" and "facts and circumstances of the anticipated use" which require estimates by taxpayers and later audit by IRS agents and which result in years of dispute and litigation.

- Reduce the auditing burden on the Internal Revenue Service (IRS).

Details of both tax proposals are being provided in material released by Secretary of the Treasury.

The President is intent on eliminating regulations and unnecessary price controls that restrict business from responding quickly and effectively to changes in the marketplace. Oil price controls have already been lifted. Other programs that will be discontinued or modified include:

Restructuring of Synthetic Fuels Program

Shifting the focus of Government synfuels programs to the newly-created Synthetic Fuels Corporation, the President's approach permits elimination of duplicative synfuels programs at the Department of Energy that will cost a minimum of $2.7 billion over the next five years -- and possibly twice that amount if project overruns follow historical patterns.

Shifting the Department of Energy's synthetic fuel commercialization and demonstration activities to the Synthetic Fuels Corporation will provide a more efficient and focused program for continued Government support for demonstrating synthetic fuel production. The shift will also insulate project selection from the "pork barrel" political process.

Because the Corporation will require private companies to contribute more money to these plants, the likelihood of successful project outcomes will be increased, while potential costs for the Government will decrease. This change is consistent with the Administration's policy to rely on private market forces to set the pace of commercial introduction of synthetic fuels technologies. The Department of Energy will terminate its support of major technical demonstrations, transfer the interim alternative fuels funding program to the Synthetic Fuels Corporation and focus on supporting long-range related research and development.

As a result of this change, current arrangements for direct funding of coal liquefaction and gasification projects will be terminated. The President anticipates that the Corporation will consider supporting these and other facilities either as full-sized synthetic fuel projects or as less than commercial joint ventures. The shift to a synfuels program based on the Corporation may actually enhance domestic supply, since the cumulative production from the affected Department of Energy projects would be less than 100,000 barrels of oil per day, while the Corporation will continue to provide support for synthetic fuel projects that could yield equal or greater amounts of synthetic fuels production.

Reductions in Fossil Energy Research and Development

The Department of Energy currently conducts a wide range of activities aimed at improving technologies for producing and using coal, oil, and gas and for subsidizing adoption of those technologies by private industry.

In conjunction with the restructuing of the synthetic fuels program, the Administration plans to restructure fossil energy research and development and terminate commercialization activities in the Department of Energy. This will allow a 47% reduction in outlays while emphasizing research with higher potential returns.

The budget in this area has increased over 15 times the 1974 level, primarily because of the high costs associated with building large scale pilot and demonstration plants.

These Government outlays are less needed at present because the energy industry has stepped up its research and development activities, having increased its 1979 spending 25% over 1978.

Benefits

Federal research will focus on high-risk, longer-term, high-payoff activities that the private sector traditionally has been less willing or able to undertake.

Deregulation of oil and gas will also provide sufficient incentives for the private sector to undertake many of the activities currently funded in the petroleum and gas research and development programs.

- Anti-competitive effects of Government subsidies will be eliminated.

Reducing Federal Involvement in Solar Energy Development

Deregulation of oil in accordance with the President's policy and increasing natural gas prices permitted under the Natural Gas Policy Act of 1978 will remove the subsidies for competing oil and gas technologies that have prevented solar energy from achieving its true potential.

In this new, healthier environment for commercial solar technologies, the President believes it is possible to shift the focus of the Department of Energy's solar activities away from costly near-term demonstration and commercialization efforts and into longer-range research and development projects that are too risky for private firms to undertake.

Total Federal support for solar energy will remain extremely high under the President's proposal because of continuation of the tax credits, which are expected to reduce taxes for residential and business investors in solar energy systems by $3.4 billion between 1981 and 1984. Elimination of the Department of Energy commercialization functions will thus reduce Federal solar support by only 29%.

Benefits:

- Encouraging private industry to develop and market solar energy.

- Focusing Federal support on higher risk, long-term projects.

Reducing Subsidies for Energy Supply Programs

The President's program includes a reduction in Federally run energy supply programs to encourage private industry and free market competitive forces to help meet our nation's energy goals. Adjustments are proposed in the following areas:

- geothermal loan guarantees.

- energy impact assistance grants that duplicate other Federal programs.

- electric energy systems and energy storage that can be supported by business.

- ending ineffective or duplicative environmental studies.

- phasing out uranium resource assessment activities that are no longer needed.

TALKING POINTS: How the President's Economic Plan Will Affect Agriculture

Goal: The President is committed to supporting and encouraging the agricultural industry that is so vital to the health of the American people and the American economy.

Farmers have been especially hard hit by rampant inflation. Controlling inflation and reducing taxes are most important means of helping those in the agricultural industry.

Historically, the Federal Government has made major efforts to assist farmers and other residents of rural areas through programs like the Rural Electrification Administration and the Farmers Home Administration. REA and FmHA will continue to assist those truly in need.

However, some of the programs created during the 1930's to help struggling farm areas have attained their original goals.

Continued expansion of these programs beyond their true purposes has placed a significant burden on taxpayers. During difficult fiscal times, it is not possible to continue to support programs that are either no longer needed or which duplicate the benefits of other programs. Reducing or discontinuing such programs will benefit agriculture and the economy as a whole

Specific Adjustments:

Reducing Federal Subsidies for the Dairy Industry

Benefits:

- Continue sufficient price support for dairy prices to ensure adequate supplies of dairy products in the market.
- Reduce production of excess milk and the need for the Federal Government to buy unwanted surplus.
- Eliminate or slow down price increases for consumers so that the average family no longer has to cut back on buying dairy products because of artificially high prices created by a Federal subsidy program.
- Reduce Federal budget expenditures, thus reducing the cost to the taxpayer.

Adjustments:

- Eliminate the semi-annual increase in dairy price support.
- Restructure the Federal dairy price support program in order to stabilize dairy prices which will then respond to the supply and demand conditions of a free market.
- This will save taxpayers more than $1 billion a year. Without these changes, the dairy price support program would cost $3.2 billion by 1986.

Reducing the Role of the Federal Government as a Supplier of Credit

As a part of a general effort to limit direct lending by the Federal Government, the President is proposing the elimination or reduction of several programs:

- Reducing FHA direct lending activities.
- Ending the Farmers Home Administration alcohol fuels and biomass loan program.
- Reducing direct lending by the Rural Electrification Administration.

Benefits:

- Eliminates needless duplication by FmHA credit programs of lending assistance provided by the Farm Credit System, state farm ownership programs, and the expanded crop insurance program.
- REA has accomplished its purpose of supplying capital to provide electrical and telephone service to rural areas. Most of the borrowing now is for utility projects whose costs should be paid by local users.
- Restores the original purpose of FmHA and REA in assisting truly needy individuals and communities in rural areas.
- Incentives for the development of alternate fuels are already provided by Federal and State tax policies worth at least $18 a barrel. Oil price decontrol will make alcohol and biomass fuels more competitive so additional incentives are unnecessary.

Adjustments:

- Seek legislation to allow REA to provide direct loans at more realistic rates.

- Discontinue Federal Financing Bank direct lending to electric generation and transmission cooperatives and the telephone companies and cooperatives to reduce Treasury borrowing by $5.1 billion in 1982.

- Reduce direct lending by FmHA by 5% in last half of 1981 and by about 25% in 1982. This means a savings of about $2.4 billion in new lending.

- Reduce REA direct lending by $187 million in 1981 and $350 million by 1982.

- Federal interest costs for REA alone would be reduced by $27 million in 1982 and $400 million over the 1982-86 period.

DEPARTMENT OF AGRICULTURE

TALKING POINTS: Child Nutrition: Elimination of subsidies for the non-needy and streamlining existing programs

Goal: As part of our national responsibility to retarget programs for their intended purpose for assisting the truly needy, the structure of the Federal Meal subsidies to schools and similar institutions will be altered. This action redefines the original intent by insuring that children from lower income families have access to adequate nutrition at school.

Explanation:

Presently the Federal Government provides subsidies in three different categories (cash, commodities and special cash assistance) to school districts that agree to provide free meals to the lowest-income students (those below 125% of the poverty line). Subsidies are distributed to schools based on the total number of children participating in the meal program, regardless of income level, resulting in subsidies, equal to 50% of the purchase price for meals, served for middle and upper income families.

Adjustment:

- Elimination of federal subsidies for non-needy families: middle and upper income families of four with annual income above $15,630.

  -- This affects 14.5 million students where school districts now receive meal subsidies of less than $60 per student each year.

- Continuation of full subsidization of meals for students from families of four with income below $11,580.

  -- 10.3 million children from poor families will continue to receive fully subsidized free school lunches; 3.0 million will also benefit from a fully subsidized breakfast at school.

- Students from families of four with income between $11,580 and $15,630 will continue to have their school meals partially funded at the rate of 64¢ per meal.

  -- 1.9 million less needy students will receive annual subsidies of $115 per year for lunch.

In addition:

- Termination of non-essential activities, including funds to purchase new school food service equipment, nutrition education and training grants to states, subsidized snacks and all subsidies to schools with high tuition.
- Elimination of deductions from gross income in eligibility determination.
- The income eligibility of students claiming full or partial subsidies will be verified by the schools on a sample basis.
- Annual indexation in future years from the 1982 levels of the base and special subsidies for both full and reduced price meals.

Benefit:

- Concentration of Federal resources where they are needed most -- in school districts with the highest proportion of needy families.
- Federal costs will be reduced by over 35% next year, or by more than $11 billion by 1986.
- By reducing the existing complexity of over 20 subsidy rates that vary by income level, type of meal, and type of institution claiming the subsidy, is a step toward removing the inappropriate Federal involvement in states and local school administrations.

Department of Housing and Urban Development

TALKING POINTS: Transfer of function of Rehabilitation Loan Fund

Goal: The Reagan Administration seeks to avoid duplication of the rehabilitation efforts of the community development block grant (CDBG) program within the Department of Housing and Urban Development. This can be accomplished by phasing out the rehabilitation loan fund.

Adjustment:

- CDBG is responsible for the annual use of about 30% of their block government funds for rehabilitation; in 1981, about $1.1 billion from CDBG appropriations are targeted for rehabilitation.
- By contrast, the rehabilitation loan fund would have funded only $200 million of rehabilitation in 1981.
- Proposed 1981 rescission of all available budgetary resources, estimated at $130 million, in addition to all repayments from prior loans, estimated at $62 million.
- An amendment to the 1982 budget of the previous administration will be sought to rescind funding.

Benefits:

- This change replaces federal control with local decision-making.
- The CDBG-funded rehabilitation is more flexible than rehabilitation through the rehabilitation loan fund service. CDBG-funded rehabilitation can made use of direct grants (which can reach very low income recipients who would not be eligible for loans), interest subsidies or loans.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

TALKING POINTS: Extension of Timetable for Completing Public Housing Modernization

Goal: To insure that the comprehensive modernization programs for public housing, a public sector capital investment activity with long-term benefits, guarantees that all public housing projects meet minimum health and safety standards, are made more energy efficient and less costly to operate. Target date for these objectives is 1985, 86.

Adjustment:

- "Stretching out" of the construction and renovation activity by deferral of $300 million of the 1981 appropriation into 1982.
- A 40% reduction in the 1982 and future year appropriation.

Benefit:

- This action is consistent with the Reagan Administration overall strategy to improve the performance of the U.S. economy to reduce inflation-caused increases in the cost of operating public housing.
- Pairing down of the original congressional funding which was so ambitious that it was questionable whether the initial funding could have been used effectively.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

TALKING POINTS: Restructuring HUD's Community Development Support Assistance

Goal: To remedy the current deficiencies by developing new policies to integrate those existing programs into a more efficient and flexible grant mechanism. This action allows the local community jurisdictions to exercise to their greatest benefit those available funds with reduced federal interference.

Adjustment:

- Consolidation of the best features of both the Urban Development Action Grant (UDAG) programs and the Community Development Block Grant (CDBG).
- Reinforcement of UDAG emphasis on securing private sector financial involvement for commercial activities.
- Liberalization of the current restrictions on the use of CDBG funds for commercial activities.

Benefit:

- The alteration will improve the utilization of Federal resources while providing the maximum degree of flexibility for local governments.
- The UDAG program currently requires an excessive amount of Federal intervention in developing, selecting and monitoring local economic development projects.
- The program revisions will permit the funding reductions to be absorbed by local communities with minimum adverse impact.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

TALKING POINTS: Reduced Level of Subsidized Housing

Goal: The Reagan Administration is committed to substantial progress towards achieving the national housing goal to provide safe, sanitary, decent and affordable housing for lower income households.

This can be accomplished through elimination of duplication of programs, unnecessary regulations, consolidation of resources and termination of resources where the primary intent has been realized or transferred, as the need is determined, to the state and local governments.

Adjustment:

- 225,000 additional subsidized housing units by 1982, or an 8.4% increase above the actual 1980 program achieved by the previous Administration. This is in lieu of the 13% increase, as projected, over the next two years.
- A deferral of $1.3 billion in 1981 budget authority is more consistent with the real program level HUD is likely to achieve for 1981, given the current status of the 1981 program authority.

Benefit:

- The benefits to the 3 million lower income families currently receiving rental subsidies will not be curtailed, nor will the deterioration affect the number of subsidized housing starts currently estimated for 1981 and 1982.
- The current program has been criticized as inequitable because it provides deep subsidies to less than 9% of the total eligible households while the remainder receives no benefit.
- While not reducing current benefits, the proposed change will reduce the long-term budget authority commitments of the Federal Government.

Housing and Urban Development

TALKING POINTS: **Elimination of the Self-Help Development program of HUD**

Goal: Elimination of the neighborhood self-help development program of the Department of Housing and Urban Development to avoid the duplication of the efforts of the Neighorhood Reinvestment Corporation, a public corporation.

Adjustment:

- A 1981 rescission of all available budgetary resources, estimated at $8.3 million.
- An amendment to the 1982 Carter budget so 1982 funding is not requested.

Benefit:

- Given the small size of this program and alternative resources, any negative impact should be minimal.
- The change would eliminate duplication.
- Community development block grant funds can be used for the same purpose as self-help funds, with the additional benefit that city officials are directly involved.

TALKING POINTS: Reduction of Federal Regulation of Health Care Industry

Goal:

To reduce the complex national health regulatory programs currently imposed on states and localities, the Administration will eliminate the professional standards review organization (PSRO) and Federal Health Planning programs. Initially created in 1972 to control rising health care costs by inspecting and regulating medicare and medical treatment, PSRO's have cost the Nation more to administer than it has saved in reduced health care costs. The current health planning program represents an effort to impose a complex national health regulatory program on states and localities.

Both the Health Planning and PSRO programs have proven themselves to be ineffective in controlling health care costs and inhibitive of the market forces needed to strengthen competition and drive down such costs. Concurrently, codified medical treatment not only discourages innovation in health care but also interferes with a physician's individual discretion.

Adjustment:

Phasing out of the current health planning program administered through 213 local health system agencies and 57 State health planning and development agencies.

Initially a $28 million reduction in funding for PSRO planning will be proposed for 1981, with renewal of those PSRO's judged most effective in controlling health care costs. Transitional funding for the most effective PSRO's would be continued in 1983 to allow competing systems of care to contract for their services.

This phase-out would be consistent with a 2-year Administration timetable to develop and carry out health financing reforms that encourage competition in the health sector.

Benefit:

Elimination of an ineffective effort to control costs on a national basis which inhibits market forces needed to strengthen competition and provide less costly services.

TALKING POINTS: Eliminate Unnecessary Federal Subsidies for the Development of Health Maintenance Organizations

Goal: To eliminate unnecessary Federal subsidies and remove the burdensome restrictions for Federal qualification, the Reagan Administration proposes to phase out the Federal grant and loan subsidy program to health maintenance organizations. It is preferable to maintain Health Maintenance Organizations (HMO's) as financially self-supporting institutions, without the strings of continued Federal subsidies. There are now 235 HMO's with 9 million members located in every urban area with a population greater than 1 million, and affiliated with 15% of the Nation's physicians.

Adjustment:

- To drop the previous Administration's supplemental request of $17 million for the loan fund and send a 1981 revision of $20 million. The program will be totally phased out by 1983.

- No new grants or loans will be made, although HMO's now receiving grant support, will be allowed to complete their grant period.

Department of Health and Human Services

Social Security

TALKING POINTS: Disability Insurance

Goal: The Reagan Administration is committed to adequate disability benefits for disabled workers and their families.

To ensure that adequate resources are available to those who need them, benefits with the least waste, fraud and abuse, qualification should be made available to only the truly disabled, and benefits should be restructured to eliminate work disincentives.

Adjustments:

- To eliminate beneficiaries, such as the 584,000 found in 1981 who were not currently disabled but still receiving benefits, administrative procedures, as well as total benefits, need to be reviewed. A "megacap" has been proposed on benefits so the total state, employee and federal disability benefits do not exceed beneficiary's prior earnings.

- Tying in eligibility for disability insurance to Social Security more tightly will better align recipients to contributions they have made to the system.

Benefits:

- Making benefits available to only those truly disabled workers will fulfill the original intent of the disability insurance and reduce long-term budget authority by $8 billion.

Department of Education

TALKING POINTS: Reducing Federal Support to Museums

Goal: It is the conviction of the Administration that general operating support for museums is an inappropriate Federal activity. While museums and other repositories of cultural artifacts are important in our society, they have traditionally been the beneficiaries of private philanthropy, for both construction and operating funds.

In order to reduce Federal spending for lower priority programs, the Administration will propose to terminate the Institute of Museum Services.

Adjustment:

- A rescission of $12 million in 1981 and a $16 million budget amendment for 1982 to eliminate funds for grants to museums. Some administrative support will be maintained through 1982 in order to phase down agency activities.

Benefit:

- A healthy and expanding economy will provide far more effective support for museum funding than any reasonable amount of explicit Federal support.

Department of Education

TALKING POINTS: Reduction of Funding for the National Institute of Education

Goal: While occasionally making valuable contributions to the theory and practice of education, the research and dissemination activities of the National Institute of Education are of a relatively low priority given present budgetary conditions. Therefore, the Reagan Administration has proposed a funding reduction of the NIE.

Background:

NIE funds research and demonstration activities in three areas: basic educational research, educational organization and administration, and dissemination of the results of research and demonstrations to practitioners in the field. While the latter activity can, in certain instances, have immediate payoffs in improved educational practices at the local level, the other activities of the NIE pay off, if at all, only in the longer run.

Adjustment:

- Withdrawal of the $5 million supplemental proposed by the previous administration for the NIE for 1981 and reduce funding in 1982 and succeeding years by 25%.

- As a result of these reductions, NIE will be provided with budget authority of $74 million in 1981 and $61 million in 1982. Budget authority will be reduced by 25% annually, or by $117 million over the next five years.

Benefit:

- An example of the general effort by the Administration to reduce funding for lower priority programs.

- While basic educational research has value, deferrals and stretch outs of work currently underway can achieve significant budgetary savings without reducing the ability of the NIE to support improvements in current educational practice.

- The Secretary is given considerable flexibility to reallocate remaining funds toward these efforts that will result in continued improvements in educational practice.

Department of Education

TALKING POINTS: Consolidating Elementary and Secondary Education Programs

Goal: The return of educational policy to its proper stewardship -- state and local jurisdiction -- can be accomplished through consolidation of the 57 categorical grant programs and elimination of unnecessary Federal rules. Existing multiple program requirements are burdensome, inflexible, unresponsive and duplicative, resulting in waste of resources at all levels of government. These programs provide supplemental or specific educational services to particularly needy students or those deserving of special federal education.

Adjustment:

- The Administration proposed collapsing these 57 categorical grant programs into two block grant programs:

  (1) A local educational agency (LEA) block program will include about 25 programs that are primarily targeted for students judged to have special educational needs: the economically disadvantaged, the physically or mentally handicapped, children with limited proficiency in English, children in school districts undergoing racial desegregation and illiterate adults.

  (2) Block grant to the States combines 30 separate programs that (a) provide direct educational services for handicapped, neglected and delinquent children, (b) improve the staffing and services of the State Education Agency itself, and (c)support improved school services in a variety of ways including assistance to school libraries, curriculum development, and technical assistance.

- Funds would be distributed according to a formula: (LEA) based on the number of disadvantaged and severely handicapped children living in the school district, (SEA) based on the number of school age children living in the states.

- Both LEA and SEA would be responsible for submitting a three-year plan specifying priorities, goals and performance criteria.

- Funding for these block grant programs would be requested in 1982 at a level equal to 80% of the level represented by the sum of the components in FY 81. The outlay funding level proposed for FY 82 is $4,260,000.

Benefits:

- Consolidation would be accompanied by the elimination of numerous regulations and requirements. This deregulation would offset the reduction in federal funding. About 13% of the Federal funds in programs to be consolidated are now used for administrative expenses by State and local agencies.

- Consolidation of programs that are so small in funding and specific in focus -- metric education, consumer education, low-related education, ethnic heritage studies -- that their administration as separate categorical grants cannot be justified.

- Reduced funding levels will be offset by more efficient management generating from the increased latitude given to State and local governments to tailor education programs to suit the particular needs of the children in their districts.

Department of Education

TALKING POINTS: Reduced Funding for Vocational Education

Goal: The Reagan Administration is committed to significant vocational educational programs while removing the strings of federal interference attached to the acceptance of federal funds by local school districts. Federal expenditures at the current services level are not needed to insure that significant vocational programs are continued in the States.

Adjustment:

- The proposed 20% reduction in budget authority will have a negligible effect on vocational education enrollment.

- Most of the funding for vocational educational programs is through formula grants to the States, which require the States to match Federal dollars. State and local expenditures far outweigh federal appropriations. Currently, state and local education agencies provide more than $10 for every Federal dollar spent for vocational education.

Benefit:

- The population that is intended to benefit most from Federal support is not being served well by this program. For instance, in the school year 1978-79, only about 15% of total vocational educational program participants were disadvantaged, handicapped, or had limited English speaking ability. As a result, continued high levels of Federal Vocational Education funding can no longer be justified.

Department of Transportation

TALKING POINTS: Reduction in the Highway Safety Grants Program

Goal: To make the best use of highway safety grants, the Administration will propose legislation to restrict eligibility to programs that have been successful in promoting highway safety and are an appropriate Federal function.

Adjustment:

- Eliminate funding to States for the enforcement of the 55 mph speed limit.
- Propose legislation:

  1) require grantees to channel resources into effective traffic programs such as alcohol safety, emergency medical services training, police traffic enforcement services, and the collection of traffic accident data.

  2) eliminate the eligibility of all other previously funded program areas including driver/pedestrian behavior research and highway safety structural improvements.

Benefit:

- Proposed budget savings of $100 - $160 million per year beginning in 1982 and extending to 1985. Initially this change would be achieved by amending the current legislation to exclude less successful programs.
- The Federal contribution to total highway safety funding is so small (2% - 3%) that the Federal Government has had little impact on what State and local governments actually do. According to the General Accounting Office, there is no evidence to substantiate that these grants reduce highway fatalities.

TALKING POINTS: Reducing Federal Funding of Urban Mass Transit Systems

- Reduction in Federal Mass Transit Capital Grants
- Phase Out of Federal Mass Transit Operating Subsidies
- Reduced Funding for the Northeast Corridor Improvement Project
- Reduction in Amtrak Fare Subsidies
- Termination of Conrail

Goal: The revised budget reduces funding levels for mass transit capital grants for new construction and subsidies for local operating costs. Federal emphasis should be concentrated on maintaining existing transit systems that have proved effective and are an essential part of a large urban transportation network. The President is committed to improving mass transit service by less capital intensive means, e.g., grants to improve existing subway systems and grants to purchase buses in large urban areas.

Adjustments:

Mass Transit Capital Grants:

- The central focus of the Federal transit assistance program in the future will be on maintenance and improvement of existing, proven transit systems. Funding for bus and rail modernization projects will be continued and increased in future years.

- Transit systems for which the Federal Government is already committed and where construction is underway will be financed to complete operable transit segments.

- Urban initiative projects already under construction will be completed. Downtown People Mover and Urban Initiatives projects will be terminated.

- The revised budget continues to recognize a Federal interest in improving transit services through grants to purchase buses and update existing rail systems -- particularly in large, urban areas.

Federal Mass Transit Operating Subsidies:

- It is the intent of the Administration to change the focus and size of the Northeast Corridor Improvement Project. Total authorization would decrease from $2.5 billion to $2.19 billion. A budget amendment will be submitted to reduce NECIP 1982 funding by $288 million, and $125 million of 1981 funding will be deferred until 1982.

- To cushion the temporary difficulties caused by this phaseout of Federal assistance, the remaining transition funds provided in 1982, 1983, and 1984 will be concentrated on those large urban areas that provide the most transit service.

Northeast Corridor Improvement Project (NECIP):

- By redirecting the use of its resources, NECIP can provide safe, more reliable service for the majority rather than minority of Northeast Corridor travelers, and eliminate large, unnecessary capital and maintenance costs while holding down increases in Corridor fares. Mass transit operating subsidies will be phased out by 1985.

- Improvement work will be redirected toward the most heavily traveled segments of the Corridor, station improvements will be made on a Federal/local cost sharing basis. By refocusing the project, savings of $310 million will be realized over the next four years, and requests for further rail funding for high speed NE Corridor rail service will be averted.

- Reliable and safe rail service would replace faster train speeds, and total authorization would decrease from $2.5 billion to $2.19 billion.

Amtrak:

- The Administration will propose amendments to the 1982 budget to reduce appropriations for Amtrak subsidies. Legislation will be proposed to require higher fares, greater state financial participation to support local train service, and elimination of Amtrak's fare subsidy when it competes with local commuter trains.

- Fares will be increased because it is not fair for the general taxpayer to subsidize that portion of the population which rides Amtrak trains, particularly when many Amtrak routes provide almost no national benefit because they operate totally within a state or just between two states.

Benefit:

- Primary responsibility for building and operating mass transit systems will be assumed by the users that benefit. There is no need for someone in Des Moines to pay Federal taxes so that someone in Los Angeles can ride.

- As the Federal Government gradually reduces subsidies for transit operating expenses, each urban area will decide what is best in light of its local needs and preferences.

- Federal operating subsidies for the rich and poor alike are terribly inefficient ways to assist, particularly disadvantaged groups, such as the elderly, the poor, minorities and youth.

- Federal subsidies for local operating costs can be counter-productive because Federal "strings" drive up these costs while holding fares unnecessarily low.

- Federal regulatory requirements, extravagant features, excessively high construction wages paid due to Federal laws, and additional routes which cannot be justified from an economic point of view are disadvantages eliminated by reduced grants and subsidies. For example: In comparison to the $75 million a mile cost for the five federally assisted projects (Washington, Miami, Buffalo, Baltimore and Atlanta), San Diego is building a trolley line with its own funds costing less than $6 million a mile.

- In regards to Amtrak, Federal budget savings will be substantial: $431 million in 1982 and even greater savings in the future. The financial burden will be shifted to Amtrak passengers and State governments.

- Because Amtrak trains represent less than 1% of intercity travel, this proposal will have virtually no negative effect on personal travel in the United States.

TALKING POINTS: Reduction of Energy Conservation Programs

Goals: Motivated by rising energy costs and Federal tax credits, individuals and businesses are making substantial conversation efforts. In the six years after the Arab oil embargo, total energy consumption increased only 6%, as compared to a 29% increase in the six years prior to the embargo. Since the decontrol of oil prices and the continuation of conservation tax subsidies can be expected to accelerate the conservation trends already observable, some federal conservation programs are no longer necessary. In many instances, they may impede private initiatives by imposing too great a regulatory burden on the public.

It is the intent of the Administration to shift primary responsibility for energy conservation to the private sector and to State and local governments wherever possible. Federal activities would be limited primarily to tax credits, block grants, and long-term research unlikely to be done by the private sector alone.

Continued Programs:

- Continuation of selected long-term research and development activities are needed, as is assistance to schools and hospitals and to low income people who do not benefit from tax credits.

- There will be no change in the current energy conservation tax credits, which are expected to provide at least $739 million in support of private conservation activities during 1981 and $799 million during 1982.

Adjustments:

- The proposed reductions in Department of Energy conservation activities thus represent a decrease of less than 20% in total Federal support for energy conservation in 1982.

- Program reductions for three kinds of conservation programs:

  (1) Technology development: Projects that are unlikely to be supported by the private sector because they are high risk and long term or apply to many industries will be retained. Projects that can be commercially viable now -- energy from urban waste, consumer products, advanced automotive engine design, electric and hybrid vehicles, and industrial processes -- will be terminated.

(2) <u>Information and regulation</u>: These programs have small budget cost, but if undertaken as planned by the previous administration, would impose considerable regulatory restraints. Therefore, these programs would be eliminated. The Federal Government's internal conservation efforts and certain information programs, would be retained.

(3) <u>Financial assistance to state and local governments</u>: Conservation programs in this area would be restructured. Public outreach programs and grants to maintain state energy offices would be eliminated. Grants for conservation activities in public and non-profit schools and hospitals would be continued at a rate of approximately $100 million per year. These grants have proved their value in effective conservation improvements in public facilities not eligible for tax incentives.

. The Department of Energy's weatherization assistance program would be consolidated into the Department of Housing and Urban Development block grant program. Thus low income weatherization activities will continue, but more in accord with local needs and priorities.

In Addition:

. To achieve these policy changes, appropriate adjustments to the 1981 and 1982 budgets will be proposed.

. Regulations now in effect or under consideration will be withdrawn and amendments to legislation will be proposed.

Benefit:

. By eliminating unnecessary conservation programs and by better targeting remaining programs, costs can be reduced by nearly 10% in 1981, 40% in 1982, and by a total of nearly $2.4 billion by the end of 1986.

Department of Labor

TALKING POINTS: Stopping Unemployment Insurance Payments to People Who Will Not Take Other Jobs

Goal: The Reagan Administration proposes strengthened work requirements to ensure that unemployment benefits do not inadvertantly become a subsidy for long-term unemployment. This can be accomplished through several revisions of the unemployment insurance benefit program.

Adjustments:

- To encourage re-employment by those collecting unemployment insurance, those unemployed for three months will be required to take employment providing wages at least equal to their unemployment insurance benefits.
- Those on seasonal and temporary layoffs would continue to get unemployment insurance as long as their regular job is expected to resume.

Benefits:

- The result is expected to be a change in work search practices by Unemployment Insurance claimants and a more rapid assimilation of unemployed workers into the employed labor force. Both workers and the economy will benefit from the decrease in the unproductive period of unemployment.

Trade Adjustment Assistance

Goal: The Reagan Administration is committed to maintaining income support assistance training and relocation allowances to those workers seeking new employment when changing international competitive conditions resulting in a decline in the industries in which they are employed.

To ensure funds are directed to those in need, duplication of benefits, work disincentives, and wasted funds must be eliminated.

Adjustments:

- Trade Adjustment Assistance (TAA) Benefits will be targeted to those who have not been called back to work, or found other employment by the time their unemployment has run out.

- Payments of TAA in addition to employment insurance will be eliminated. TAA benefits will no longer exceed unemployment insurance benefits. There is no reason to pay one type of displaced worker more than another.

Befefits:

- Under the new policy, eligibility for benefits would not be affected -- only duplicated payments of TAA and Unemployment Insurance (UI) would be eliminated.

- The current TAA program has been criticized as inequitable because of varying payments of UI and TA benefits, and also because of the work disincentives created by excessively high benefits when duplicate payments occur.

- While not reducing current benefits, changes will reduce budget authority commitments by $3 billion in 1986.

DEPARTMENT OF LABOR

TALKING POINTS: Unemployment Insurance Extended Benefits in States with High Unemployment

Goal: To help prevent hardship in areas where high levels of unemployment makes new jobs difficult to find for many unemployed workers, the Administration is committed to assist those States by providing 13 additional weeks of unemployment insurance beyond the regular State programs.

In order to focus extended benefits in those areas where high unemployment makes finding a new job difficult; however, certain program reforms are needed.

Adjustment:

- Eliminating the national extended benefits program, which now requires payment of extended benefits in all States -- including those with low unemployment -- when the national insured unemployment rate reaches the level set by law will help target funds to those States with especially high unemployment. Payments to States with low unemployment rates often creates disincentives in seeking employment in areas in need of labor.

- Calculations for the extended benefits program would be made more accurate by removing claimants of extended benefits from the calculation of the insured unemployment rates, which determines when extended benefits are paid in each State.

- Increases in the State "trigger" rates have been proposed. These State trigger rates would take effect October 1, 1982, to permit changes in State law.

Benefit:

- By using State-by-State triggers as the mechanism for determining the beginning of extended benefits, those in need of additional assistance can be helped at the same time budget authority can be reduced by $3 billion by 1986.

Department of Labor

TALKING POINTS: Black Lung Disability Trust Fund

Goal: The Administration proposes to restore the Black Lung Disability Insurance Trust Fund to a sound financial footing through a series of amendments designed to match benefit payment levels more closely with Trust Fund revenues.

This goal can be achieved through improved eligibility certification and administrative practices, legislative tightening of program eligibility criteria, and reevaluation of the present mechanism for collecting program revenues from coal operators.

Adjustments:

- The Administration proposes, for later submittal, a combined package of program amendments and revenue provisions designed to bring the trust fund into balance within the 1983-1985 period. Presently, less than one-third of all Trust Fund outlays are covered, as required by law, by revenues raised from the coal industry; the balance are covered by Treasury appropriations to cover ever-widening deficits.

- These deficits are created by lax eligibility requirements and unrealistically low levies on coal production to finance benefits to those truly deserving of assistance. Recent evidence makes clear that a significant share of black lung beneficiaries are either not disabled, or else are not suffering from black lung disease. Even if changes were made to restrict program payouts to the truly deserving, however, industry contributions would be inadequate to cover total costs. The Administration's proposal will encompass a balanced means of reducing outlays and increasing revenues to ensure that those miners who are disabled due to black lung disease receive their full compensation, without being forced to rely on annual appropriations.

Benefits:

- By ensuring the long-run stability of the Trust Fund, the Administration's proposal will ensure that those disabled by black lung disease will continue to receive the prescribed benefits.

National Endowments for the Arts and Humanities

TALKING POINTS: Reducing Federal Support for the Arts and Humanities.

Goal: The Federal Government should not be the financial patron of the first resort for both individuals and institutions engaged in artistic and literary pursuits. State and local support for arts and cultural activities should be encouraged, as well as the role of private philanthropy. In the prioritization of programs which benefit all of society and particularly during these difficult economic times, a higher priority of the role of the federal government must be to provide the truly needy with the fundamentals of their livelihood.

Adjustment:

- A 50% reduction in budget authority for the Arts and Humanities Endowments -- outlay level of $100 million.
- Amending the 1982 budget by decreasing $85 million for the Arts Endowment and decreasing $80 million for the Humanities Endowment; additional reductions in budget authority for '83, '84, '85.

Benefit:

- A reemphasis on the historic role of private individuals and corporate support.
- Given the need for fiscal restraint across the full range of Federal programs that meet more basic human needs, low priority items must bear a greater burden if fiscal restraint is to be achieved in a balanced and compassionate manner. Reduction of federal funding to the arts is the proper sacrifice within the total realm of the budget.

TALKING POINTS: Corporation for Public Broadcasting (CPB)

Goal: At a time when budgetary constraints demand that we reduce benefits to lower-income Americans, there is little justice in continuing to subsidize public broadcasting at such high levels.

Like most non-profit service organizations, public broadcasting stations perform useful services; (however, their beneficiaries are frequently upper, middle-class Americans who are financially able to support the station — and who should do so to a greater extent, since they benefit most from the programming.) Most cost-effective programming is done, however, at the local or regional level. Given the need to sharply constrain expenditures for low-priority items, reducing in high unit-cost national productions and Corporation overhead can be achieved without severely affecting the ability of local stations to maintain quality operations.

Adjustment:

- The 25% reduction will be primarily directed at CPB's administrative costs and national program production.
- CPB support for local stations will be maintained at as high a level as possible, but there is no need for CPB to select and finance program activities for local stations.

Benefit:

- This program change will save $43 million in 1982.
- Program development can be achieved much more effectively - and at a far lower cost - at the local and regional level.
- By continuing to reduce Federal contributions in 1983 and 1984, $377 million will be saved over the next five years.
- By non-commercial stations determining the need for and type of programs they require and financing their own productions, there is a greater opportunity for private and corporate donations to play an increased role in financing local public television and allow Federal support for local stations to be maintained.

Department of the Interior

TALKING POINTS: Major Initiatives in the Department of the Interior

Goal: The Interior Department is the custodian of the national park and historic treasurers protected by the National Park Service. In order to bring the budget under control and make additional funds available for restoration and improvement of the national park system, it is necessary to substantially reform the Department's recreation and preservation programs.

Adjustment:

- This can be accomplished through moratoriums on Federal land purchases, elimination of three major state grant programs and by significantly increasing the resources available for existing National Park Service areas.
- In 1981, $105 million will be proposed for rescission of land and waste conservation fund appropriations for Federal land acquisition.
- In 1982, a similar amount will be requested for a major park restoration and improvement initiative. The level for Federal land acquisition will be limited to the amount necessary to close out current court awards, emergency land acquisition efforts and administration. The total requested from the land and water conservation fund for both the parks initiative and land acquisition program in 1982 will be $150 million.
- In 1982, $5 million will be requested to aid the national trust for historic preservation. No changes are proposed to the current tax incentives for historic preservation, estimated to be $100 million in 1982.

Benefit:

- Postponing Federal acquisition will allow for a thoughtful policy review of existing park and recreation legislation, improved utilization of land exchange and State and local efforts to achieve conservation goals.
- These efforts will insure the proper protection for the people's use of the Nation's parks.

Postal Service

TALKING POINTS: Reduction of Public Service and Revenue Forgone Subsidies to the Postal Service

Goal: The past decade of steadily deteriorating national economic performance has been accompanied by a rapid build-up of direct spending to alleviate or revise those trends. The U.S. Postal Service currently receives a Federal subsidy equivalent to about 7% of its total operating budget.

Adjustment:

- The proposal would reduce the financial burden borne by the taxpayers by $632 million in 1982.
- The reduction would affect the public service subsidy and the revenue forgone payments to the Postal Service. The Postal Service Subsidy offsets the costs of maintaining services which are not self-sustaining. The revenue forgone subsidy provides funds for free and reduced rates for certain classes of mail.

Benefit:

- The cost of mail service would be borne by the users, not the taxpayers.
- By eliminating artificially lowered mail rates for certain users, made possible by these subsidies, the program encourages more efficient use of the mail system.
- Deletion of these subsidies restores incentive for the Postal Service to realize operational efficiencies and speed the program toward full financial independence.

Corps of Engineers -- Civil Water and Power Resources
Services and Soil Conservation Service

TALKING POINTS: Limited Deferrals of Some Water Resource Development Construction

Goal: To defer some of the less critical features of the projects, but not delay the realization of hydroelectric, municipal water supply, navigation, or urban flood control features, the Reagan Administration will propose reduction in the construction program of the Corps of Engineers, Water and Power Resources Services, and the Soil Conservation Service.

Adjustment:

- An 11% reduction in the planned construction programs of the Corps of Engineers -- civil, Water and Power Resources Services, and Soil Conservation Service.
- Defer funding for the less critical features of projects such as the development of recreation areas and some rural flood control and irrigation deliveries.
- Less that 100 of the more than 300 projects underway will experience any delay.

Benefit:

- The delays in completing non-critical features on time will average 2 years and will reduce Federal expenditures $1.6 billion over the next 5 years.