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THE WHITE HOUSE

WASHINGTON

KEY 1983 INITIATIVES

White House Office of Policy Information
May 1, 1983

KEY 1983 INITIATIVES

1

OVERALL BUDGET PLAN

Objective.

- To create the budget conditions necessary to restore permanent economic health.

Problem.

- The rate of economic growth has slipped from an average of 4.1% for 1950 - 1969 to an average of 2.9% for 1970 - 1980 -- nearly one third less. The growth rate has steadily deteriorated since 1977, and the economy has not grown at all since 1979.

- As a result, the unemployment rate climbed from a low of 6.3% in 1979 to a peak of 10.8% in 1982; more than 12 million people were out of work.

- A prime cause: the enormous increases in federal spending and taxes.

  -- Spending nearly quadrupled between 1970 and 1982, rising from 19.7% of GNP to 23.8% of GNP -- an increase of one-fifth.

  -- Taxes more than tripled between 1970 and 1982.

Solution.

- The President is proposing a four-point budget freeze and reform plan that would:

  -- Reduce the growth of spending to 5.4% in FY 1984.

  -- Reduce federal spending to 23.0% of GNP by 1988.

- Elements of the plan.

  -- 1984 spending freeze measures.

    * No increase in civilian/military pay and retirement.

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

    * One-year freeze on aggregate non-defense discretionary programs.

  -- Long-term structural reform.

    * Bipartisan Social Security Reform Plan that cuts 1984-88 social security spending-revenue gap by $79 billion.

* Health care reform and efficiency incentive package.

* Major reforms of federal retirement and means-tested entitlement programs.

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

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

-- Standby tax.

* Equal to 1% of corporate and individual taxable income and $5 per barrel oil excise tax.

* Triggered in FY 1986-1988 only if (1) budget freeze and spending reforms are adopted, (2) deficit is above 2.5% of GNP, and (3) the economy is in recovery.

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2

THE UNEMPLOYMENT PROBLEM

Dimensions of the problem.

- Of the 111 million Americans in the labor force, about 11.5 million were unemployed at the end of 1982.

Nature of the problem.

- In non-recession times:
  - -- Persons who quit their jobs, enter the labor market for the first time, or re-enter the market account for more of the unemployed than persons who lose their jobs.
  - -- Unemployment for most workers is of relatively short duration -- less than 10 weeks.
- The duration of unemployment has been increasing -- about 40% of the unemployed presently have been out of work for more than 15 weeks, compared to 27% when the recession began in 1981.
- This is due to two factors:
  - -- The length and depth of the 1981-1982 recession, known as cyclical unemployment.
  - -- Structural unemployment, including:
    - * Fundamental changes in the economy.
    - * Mismatch between skills required for available jobs and those available to fill them.
    - * Barriers to labor market entry and mobility.

The role of economic growth.

- The foundation has been set for restoring long-term economic growth:
  - -- Consumer prices have been essentially unchanged in recent months, and presently are only 3.5% above a year ago.
  - -- Interest rates have fallen by half in the last two years.
  - -- Tax rates have been cut.

- Economic growth and recovery will ease the cyclical unemployment problem by creating more than 5 million new jobs by the end of next year, and 15 million new jobs by the end of 1988.

- Additional help will be necessary to reduce the long-term structural unemployment problem.

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3

ASSISTING THE CYCLICALLY UNEMPLOYED

Objective.

- To further ease the pain of recession-induced unemployment.

Solution.

- Accelerated funding of construction projects.

  -- The President recently signed a bipartisan bill (Title I of P.L. 98-8) that advances funding for construction projects already envisioned.

  -- The jobs provided through this initiative will be those already deemed necessary, and therefore not make-work jobs.

  -- Most of the $4.6 billion provided in the bill is for this purpose.

- Extension of unemployment benefits.

  -- Federal Supplemental Compensation (FSC) is available to unemployed workers who have exhausted their regular and extended unemployed benefits.

    * Twice last year, President Reagan supported this extension of unemployment benefits.

    * However, current FSC benefits were scheduled to expire on March 31, 1983. The President has signed into law a bill extending the expiration date to September 30, 1983.

  -- The FSC Program will now provide:

    * An additional 14 weeks of benefits to recipients in states with an insured unemployment rate of 6% or above.

    * An additional 12 weeks of benefits to recipients in states with an insured unemployment rate of 5% to 6%.

    * An additional 10 weeks of benefits to recipients in states with an insured unemployment rate of 4% to 5%.

    * An additional 8 weeks of benefits elsewhere.

    * Up to 10 or more weeks of benefits to those who received their first FSC payment prior to April 1, 1983, and use up all their available weeks of FSC.

  -- The extension of FSC is expected to cost $2.8 billion, and provide needed assistance to 3.8 million unemployed.

- Humanitarian aid.

  -- The bill also provided for emergency food, shelter and other in-kind aid to unemployed persons where needs are not being adequately addressed by existing federal assistance programs.

  -- Funding for this emergency aid is $216 million.

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4

EMPLOYMENT VOUCHERS

Objective.

- To promote the hiring of the long-term unemployed.

Problem.

- Under current law, the government aids people who are not working but provides no incentives to help them get jobs.

Solution.

- The President has proposed the creation of job vouchers for those unemployed persons eligible for Federal Supplemental Compensation (FSC) unemployment benefits.

  -- Such individuals will have the option of converting their FSC payments to vouchers.

  -- The value of the individual's weekly voucher will equal one-half of the individual's weekly FSC benefit.

  -- An individual will be eligible for twice as many weekly vouchers as weeks of additional unemployment benefits.

  -- These vouchers will entitle employers hiring eligible individuals to receive a tax credit equal to the value of voucher.

- Conditions on the vouchers.

  -- Employers must first apply the voucher to their state and federal unemployment insurance taxes, with remaining vouchers applied to federal income taxes.

  -- The tax credit is not refundable, but may be carried forward against income tax liabilities for 15 years.

  -- Employers may not claim the credit for hiring former employees.

  -- The programs will expire on April 1, 1984; individuals must begin using their vouchers before this time.

- The job voucher program will benefit an estimated 200,000 individuals in FY 1983 and 500,000 in FY 1984.

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5

ENTERPRISE ZONES

Objectives.

- To create jobs, particularly, for disadvantaged workers, in the nation's economically distressed inner cities and rural towns.

- To stimulate redevelopment and economic revitalization within the distressed geographic areas themselves.

Problem.

- Despite the expenditure of many billions of federal dollars in the nation's distressed areas over the past two decades, their problems have worsened.

Solution.

- Concept:

  -- Create an open, free-market environment in depressed areas, called enterprise zones, through: (1) relief from taxes; (2) relief from regulations and other government burdens; (3) privatization of some city services; and (4) involvement of private, neighborhood organizations.

  -- The removal of these burdens would create and expand private economic activity and opportunity within the zones, creating jobs and improving services -- much as has occurred in the "free trade zones" around the world such as that in Hong Kong.

  -- The program is intended to stimulate new economic activity that otherwise would not have occurred, and to encourage a wide range of business activity, rather than one particular kind of enterprise.

- Program structure.

  -- Zone designation.

    * Federal legislation would establish zone eligibility criteria concerning poverty, unemployment and other indicators of distress.

    * Eligible areas would have to be nominated by both the state and local governments, and would then have to apply to the Secretary of HUD for designation.

    * The Secretary of HUD would then evaluate the zone nominations on a competitive basis, with the primary criterion being the quality, strength and open-market orientation of incentives contributed by state and local governments.

* A maximum of 75 zones, with one-third in rural areas, would be federally designated during the first three years of the program.

-- Federal tax incentives.

* A nonrefundable 3 to 10% investment tax credit for capital investments in an enterprise zone.

* A nonrefundable, 10 percent income tax credit to employers for new employees hired from within the zone.

* A special strengthened, nonrefundable, 50 percent income tax credit to employers for wages paid to zone employees who were disadvantaged individuals when hired.

* A nonrefundable, 5 percent income tax credit to qualified zone employees for wages earned in zone employment.

* Elimination of capital gains taxes within the zones.

* Designation of suitable enterprise zone areas as foreign trade zones, providing relief from tariffs and import duties.

* Continued availability of industrial development bonds to small businesses in enterprise zones.

* Allowance for any enterprise zone firm of an operating loss carryover for the life of the zone in which it is located or 15 years, whichever is longer.

* Allowance for any enterprise zone firm of a carryover of any unused tax credits for the life of the zone in which it is located or 15 years, whichever is longer.

-- Federal regulatory relief.

* Federal regulatory bodies could relax or eliminate nonstatutory regulatory requirements within the zones, but only upon the request of the state and local governments.

* Statutory regulations, such as the minimum wage law, civil rights laws, and regulations whose relaxation would harm the public safety or health could not be relaxed or eliminated.

-- State and local role.

* Tax relief could be provided in the form of reductions in state and local income taxes, property taxes, sales taxes, and other taxes that vary among the jurisdictions.

* Regulatory relief could be provided in such areas as zoning, occupational licensure laws, usury laws, price controls, permit requirements, central planning regulations and building codes.

* Services could be improved through "contracting out" or "privatization."

* Local community involvement could be encouraged through state and local creation of "Neighborhood Enterprise Associations" by zone residents in their areas. These services help local residents join in the economic success of the zones, particularly through equity participation, and support volunteer, self-help efforts for the zone area.

* State and local governments could also provide funding for projects that contribute to economic development in a zone, such as job-training or infrastructure efforts. These governments could use their own revenues as well as their Community Development Block Grants, Urban Development Action Grants or Revenue Sharing funds for these efforts.

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6

ASSISTING DISPLACED WORKERS

Objective.

- o To help ease the transition for displaced workers from one job type to another.

Problem.

- o Many thousands of experienced workers in certain industries such as autos and steel have lost their jobs.

- o Because of the changing nature of the U.S. economy, some of these jobs may not return.

- o To secure another job, many of these displaced workers will have to acquire new skills.

Solution.

- o Job Training Partnership Act.

  * Title III provides federal matching grants to states to assist displaced workers.

  * Title III of the JTPA is designed to involve business, labor, and local elected officials in planning and implementing programs to help displaced workers in order to ensure that the aid is focused on the greatest local needs.

  * States may use these funds to provide retraining, job search, and relocation assistance to these workers.

  -- The job bill increase through 1983 amounts to between $25 million and $110 million. How much of this is to be considered an advance of the 1984 appropriation is not yet decided.

- o Using unemployment insurance for reemployment assistance.

  -- Under current law, unemployment insurance trust funds are restricted to providing cash assistance to eligible unemployed workers.

  -- Under the President's proposal, states would be permitted to use up to 2 percent of their unemployment insurance tax revenues to provide training, job search, and relocation assistance.

  -- This proposal will make available an estimated $300 million to $400 million that states could use to provide reemployment assistance to up to 100,000 displaced workers.

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7

YOUTH EMPLOYMENT OPPORTUNITY WAGE

Objective.

- To supplement current federal youth employment and training efforts by removing employment barriers that hinder the employment of many of the nation's youth.

Problem.

- Under current law, the minimum wage of $3.35 per hour prevents thousands of youth from obtaining jobs because the youth have neither the skills nor the training to command that wage.

Solution.

- The youth employment opportunity wage would replace the current minimum wage for youth under the age of 22 for summer employment between May 1 and September 30.

- The youth employment opportunity wage would be established at $2.50 an hour, approximately 75 percent of the minimum wage.

- The President's proposal includes specific protections for current workers:

  - Employers could not lay off an adult worker and replace him or her with a youth at the $2.50 an hour wage rate.

  - Employers could not reduce the wage rate of a youth employed before May 1 or replace him or her with a youth at the $2.50 an hour wage rate.

  - Violations of either protection would be subject to criminal and civil penalties contained in the Fair Labor Standards Act.

- The youth employment oopportunity wage would create between 150,000 and 640,000 new jobs for youth.

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8

FEDERALISM INITIATIVE

Objectives.

- Restore greater state and local control and discretion over federal programs that are more properly administered at state and local levels.

- Set the foundation for eventual transfer to state and local levels of these programs and the revenue sources to pay for them.

Problem.

- Over the years, the federal government has assumed functions that are not its responsibility and that it is ill-equipped to perform.

- As a result, significant amounts of programs' budgets are lost to red tape.

Solution.

- The President's federalism proposal consists of four block grants consolidating 34 programs, with a proposed FY 1984 funding level of approximately $21 billion.

  - State Block Grant -- A grant to states combining twenty-two health, social services, education, and community development programs, involving approximately $11 billion annually.

  - Local Block Grant -- A grant to localities combining the General Revenue Sharing (GRS) program and the entitlement portion of the Community Development Block Grant (CDBG), involving approximately $7 billion annually.

  - Transportation Block Grant -- A ground transportation grant to states consolidating six highway programs, covering urban and secondary systems, bridges other than primary, and safety activities, involving some $2 billion annually.

  - Rural Housing Block Grant -- A grant to states consolidating four programs for low-income rural housing construction and repair, involving $850 million annually.

- Funding provisions.

  - State and local governments will receive stable and predictable funding levels for the programs in each block grant through FY 1988.

* For each year from 1984 through 1988, annual funding for the State, Local and Transportation Block Grants will be set at the <u>sum of the 1984-enacted levels</u> for the programs consolidated in each block grant.

* Funding for the Rural Housing Block Grant will be set at <u>$850 million</u> per year.

-- Use of funds for each block grant will be limited to the <u>purposes of the programs</u> it consolidates. (A list of programs proposed for inclusion in each block grant is attached.)

-- <u>Source of funds</u>.

* The <u>State Block Grant</u> will be financed by federal excise tax revenues on alcohol, tobacco and telephones.

* The <u>Transportation Block Grant</u> will be financed by a portion of the federal gas tax revenues.

* The <u>Local and Rural Housing Block Grants</u> will be financed be general revenues.

-- <u>Fund transfer</u>.

* During the five year 1984-1988 period the Administration will <u>determine whether it is feasible</u> to <u>return revenue sources</u>, such as federal excise taxes or a percentage of the federal income tax, to state and local governments commensurate with funding for the programs in the block grants.

* The President will establish a <u>presidential commission</u> to make recommendations on revenue return issues.

o <u>State/local flexibility in assuming responsibility</u>.

-- During the five-year 1984-1988 period, state and local governments will be able to <u>assume responsibility</u> for activities associated with the programs <u>at their own pace</u>.

-- <u>Specific provisions</u>.

* <u>State Block Grant</u>.

- A state may choose to <u>take over one or more</u> of the twenty-two programs over the five year period.

- When it does so, it may fund the program under <u>simplified administrative procedures</u>, obligated only to use the funds for the <u>purpose of the program</u>.

- States may, however, also use 20% of the funds in the first year for the purposes of any of the other programs included in the block grant. The 20% increases to 40% the second year, and increases by 20% each succeeding year.

* Local Block Grant -- Operates for local governments in the same way as the State Block Grant operates for State government.

* Transportation Block Grant -- A state may choose to assume responsibility for the block grant in any of the five years, but must take over all six closely-related programs at once, rather than individually assuming responsibility for selected programs.

* Rural Housing Block Grant -- Operates similar to the Transportation Block Grant.

o Special protections.

-- All block grants administered by the states contain requirements for states to consult with local governments concerning state use of funds.

-- In general, most state funds must be provided to local governments, in the aggregate, proportional to the distribution of those funds in 1981 through 1983.

-- Existing discrimination prohibitions under general law with respect to race, color, national origin, age, handicap, and sex apply to the block grants.

-- States and localities must solicit public input on pre-expenditure reports describing how the funds are to be used.

-- States and localities must prepare and make available for the public an annual (post-expenditure) report on activities assisted under the block grants.

Attachment

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PROGRAMS INCLUDED IN THE FEDERALISM INITIATIVE

State Block Grant

- Rehabilitation Services
- Vocational Education
- Adult Education
- State Education Block Grant (ECIA, Chapter 2)
- WIN
- Low-Income Home Energy Assistance
- Social Services Block Grant
- Community Services Block Grant
- ADAMHA Block Grant
- MCH Services Block Grant
- Rural Water and Waste Disposal Grants (FmHA)
- Water and Sewer Facility Loans (FmHA)
- Community Facility Loans (FmHA)
- CDBG–Non-Entitlement Portion
- Grants for the Construction of Municipal Waste Water Treatment Works (EPA)
- Child Welfare Services
- Child Welfare Training
- Adoption Assistance
- Foster Care
- Preventive Health and Health Services Block Grant
- Child Abuse State Grants
- Runaway Youth

Federal-Local Block Grant

- General Revenue Sharing
- CDBG–Entitlement Portion

Transportation Block Grant

- Urban System
- Secondary System
- Non-Primary Bridges
- Highway Safety (FHWA 402 Grants)
- Hazard Elimination
- Rail-Highway Crossing

Rural Housing Block Grant

- Rural Housing Insurance Fund
- Very Low-Income Repair Grants
- Mutual and Self-Help Grants
- Rental Assistance Program

9

HIGH TECHNOLOGY

Objective.

- To create an environment in which high technology industries can flourish.

Problems.

- Personnel shortages.
  - -- High schools are upgrading their math and science requirements, as they should; but if every student were to take just one more math or science course, there would be a shortage of more than 30,000 qualified teachers.
  - -- There is a 10 percent vacancy rate in engineering faculty positions throughout the country.
  - -- By 1985, the electronics industry's demand for electrical and computer software engineers is expected to be 200,000 while the total supply is expected to be only 70,000.
- Investment.
  - -- High technology industries have very large investment requirements, especially in research and development (R&D).
  - -- Concerns about antitrust violations limit the willingness of U.S. firms to participate in cooperative R&D projects.
- Many foreign countries do not provide U.S. high technology firms the same access to their markets and technology as the U.S. provides foreign countries' firms.

Solution.

- To promote the education of engineers and scientists, the Administration is proposing:
  - -- A Presidential Young Investigators Awards program designed to attract to university research as many as 200 recent PhDs who might otherwise choose non-teaching careers in industry.
  - -- A National Science Foundation program that will annually train 10,000 secondary school math and science teachers and a Department of Education program that could train 30,000 new secondary school science and math teachers over a 4-year period.

o To encourage private sector R&D investment, the Administration:

-- Supported a provision included in the 1981 tax act that provides a 25% tax credit for R&D expenses above those in the previous three-year period.

-- Is promoting private sector arrangements that allow firms to jointly conduct research and development efforts that may be too expensive for an individual firm to undertake, by helping alleviate concerns that cooperative R&D activity may result in antitrust violations.

-- Is proposing to increase federal support of R&D by 17 percent.

* Basic research would increase by 10 percent.

* The R&D budgets in agencies supporting primarily physical sciences, engineering, math, and computer sciences would increase 15 percent.

* Defense R&D would increase by almost 30 percent, some of which will be devoted to areas such as microelectronics, materials, and computer languages.

o To increase access to foreign markets and technology, the Administration has:

-- Approved an agreement with Japan that should provide U.S. high technology firms greater opportunities to compete equally in the Japanese market and greater access to Japanese government-sponsored R&D programs and licenses for patents and technology.

-- Established the Presidential Commission on Industrial Competitiveness.

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10

TRADE

Objective.

- To continue U.S. leadership in support of free trade while ensuring that U.S. industry and agriculture can compete fairly in world markets.

Problem.

- The decline in economic growth in major countries has resulted in growing protectionist pressures:

  -- Economic growth in OECD countries has declined from 3.3 percent in 1979 to 1.2 percent in 1981, and to 0.5 percent in 1982.

  -- Major trading nations have turned increasingly to the use of subsidies and restrictions on imports to protect markets at home and abroad.

Solution.

- Concept.

  -- To implement a trade strategy that will ensure the continued liberalization of world trade and the increased flow of American goods and services abroad.

- Elements.

  -- New negotiating authority.

    * Authority will be requested to seek reductions in tariffs, and barriers to U.S. investment and trade in services and high technology goods.

  -- Increased Export-Import Bank authority.

    * The 1984 budget will include $3.8 billion in direct lending authority and $10 billion in guarantee and insurance authority.

    * An additional $2.7 billion in direct lending authority will be sought if needed to meet subsidized foreign officially-supported competition.

  -- DISC alternative.

    * U.S. tax law will be brought into conformity with GATT and the current level of tax benefits for U.S. exporters will be retained.

-- Revision of antitrust laws.

* Action will be taken to permit U.S. firms to conduct cooperative research and development.

* The method by which market share is defined in antitrust cases will be revised to account for the growth of international trade and business and their effects on competitive conduct within the U.S.

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11

NATURAL GAS CONSUMER REGULATORY REFORM LEGISLATION

Objectives.

- To benefit consumers by creating a system in which natural gas prices can be responsive to gas demand and supply.

- To protect consumers from uneconomic natural gas price increases through elimination of regulatory barriers that prevent natural gas from being purchased, distributed and used efficiently.

- To ensure that consumers do not bear the risk of price increases from an effort to let the natural gas market work.

Problem.

- The Natural Gas Policy Act (NGPA) of 1978 currently is causing natural gas prices to rise -- an expected 25% this year alone -- in spite of an oversupply of deliverable gas, declining oil prices, and a low rate of inflation.

- Sources of these price increases.

  -- In the middle 1970s, natural gas price ceilings caused devastating gas shortages.

  -- Seeking to avoid a return of those shortages, gas pipelines locked themselves into contracts that guaranteed the gas supplies, but also required them to buy gas whether they needed it or not (take-or-pay clauses).

  -- Pipelines greatly overestimated natural gas demand, and now are committed to buy more gas than they can use.

  -- Because contract cancellation penalties are higher for higher-priced gas, pipelines generally cancel lower priced gas contracts.

  -- Also, remaining price controls on "old" gas (which, while cheaper to produce, is priced below its production costs) discourage its production, even though it could substitute for higher-priced gas in an open market.

Solution.

- The President's proposal would modify, until January 1, 1986, the current Federal Regulatory Commission regulations that allow pipelines immediately to pass through to consumers all wellhead cost increases.

  -- Purchased gas costs automatically passed to consumers would be limited to the pre-enactment levels plus the increase attributable to inflation.

-- Price increases above the rate of inflation could not be passed to consumers unless such increases specifically were approved by the Federal Energy Regulatory Commission after a public proceeding with appropriate standards.

-- This proposal would ensure fairness to consumers and provide incentives to suppliers and pipelines to renegotiate contracts to minimize costs.

o Before 1986, the average price of gas purchased through renegotiated and new contracts would become the "gas cap" for existing contracts.

-- All new and renegotiated contracts for natural gas would be free of controls, ensuring that whenever buyers and sellers agreed, they would have maximum freedom to produce gas at a market price.

-- The price for all regulated gas would then be limited to the lower of either the "gas cap" or the NGPA-controlled price (where the price category remains in effect under NGPA), with the exception of "tight sands" gas, which would be capped at its maximum lawful price at the date of enactment.

-- The price of gas not currently regulated -- so called "deep gas" -- would until January 1, 1986, be capped at the higher of the contract price as of the date of enactment or the "gas cap," unless such contracts were renegotiated prior to that date.

-- The "gas cap" would be applied as a ceiling for price escalator clauses in existing contracts until January 1, 1986, or sooner if such contracts were renegotiated.

o Until January 1, 1986, the President's proposal would allow pipeline companies to reduce their minimum rates of take to 70 percent under those "take-or-pay" provisions that require pipelines to buy all contracted gas regardless of how much gas they can sell.

-- If the purchaser elected to reduce the amount of gas taken under "take-or-pay" provisions, the seller could sell that portion of the gas elsewhere.

o The proposal would require pipelines to carry gas at an incentive rate where producers could find buyers directly, where there was available capacity, and where existing pipeline customers were not penalized.

o Under current market conditions, the proposed natural gas legislation should result in a first year drop in the average price of gas of 10 to 30 cents per thousand cubic feet (mcf).

-- This estimate is based on <u>assumptions</u> about the extent of producer/pipeline renegotiations, the current excess of deliverable gas supplies, the rate of economic growth and the path oil prices will follow over the next few years.

-- If, for example, oil prices were to fall below the cautious projections used (which do not take into account recent price reduction announcements by major foreign oil producing nations), gas prices <u>could drop even further</u> in the near-term.

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12

ENVIRONMENT

Objective.

- To safeguard the health and welfare of the American people and to protect their environment.

Problem.

- Inefficiency and needless red tape have wasted resources and have not always provided environmental protection commensurate with the economic burden.
- Environmental regulations have at times unnecessarily impeded economic development, causing a loss of jobs.

Solution.

- General approach.
  - EPA will ensure compliance with environmental laws passed by Congress and perform research to support sound environmental regulation.
  - Regulations that do not provide environmental benefits will be revised and scarce resources targeted to the most important environmental concerns.
- Specific approaches.
  - State partnership.
    * States will be asked to become full partners with the federal government in implementation and enforcement of environmental laws.
    * EPA will comply with the intent of Congress that states run these programs with technical guidance from EPA.
  - Enforcement.
    * Where possible, EPA will encourage voluntary compliance by communities and private industry with environmental regulation.
    * EPA will judiciously employ litigation and criminal investigations when cooperation is not forthcoming.
  - Good science.
    * Good science will be the foundation for sound environmental regulations.
    * Peer review will become an institutionalized part of regulatory decision making.

-- Regulatory reform.

* Costly, time consuming delays in permit review that have hindered economic development are being eliminated.

* Other unnecesary regulations are being modified or eliminated -- with the strict provision that rules necessary to protect the environment are maintained.

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13

AGRICULTURE

Objectives.

- o To help meet domestic consumption needs and international trade demands for food and fiber.

- o To mitigate the adverse effects of price fluctuations on farmers.

- o To move toward a more market-oriented farm economy.

Problem.

- o Excellent weather in 1981 and 1982 has helped create record supplies of many agricultural commodities.

- o At the same time, global recession, the strong dollar, East-West political tensions, and unfair trade practices by foreign countries have worked to reduce the world demand for U.S. farm products.

- o The result is a supply-demand imbalance that is driving farm prices down and federal agricultural price support outlays up at alarming rates.

Solution.

- o Goal: To bring supply and demand more into balance and thereby stabilize prices and reduce federal outlays.

- o Mechanisms.

  -- The President has implemented the payment-in-kind (PIK) program under which farmers are provided government-owned commodities, instead of cash, in return for reducing production.

    * Farmers have demonstrated their acceptance of PIK by enrolling in the program 83 percent of their corn/sorghum, cotton, wheat and rice acreage bases.

    * If all enrollees comply with program provisions, a record 82 million acres -- or about a third of the total base average -- will be taken out of production.

  -- The President has proposed to freeze target prices for wheat, feed grains, cotton and rice at current levels.

    * This will reduce subsidy payments and the incentive to produce beyond reasonable levels.

    * This proposal is consistent with the budget strategy of freezing indexed entitlements.

-- The President has implemented an expanded blended export credit program to stimulate foreign demand for U.S. agricultural products.

-- The President has challenged the unfair agricultural trade practices of Japan and the European Community through GATT challenges and has established targeted counter-export subsidy programs.

-- The President has ended the Soviet grain embargo and has worked to restore more normal agricultural trade relations with the Soviet Union.

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14

SOCIAL SECURITY REFORM

Objective.

- To restore the financial solvency of the Social Security system, ensuring that there will be sufficient revenues to pay the promised benefits to the nation's elderly.

Problem.

- The bipartisan National Commission on Social Security Reform unanimously concluded that the Social Security system faces a benefit-revenue gap of $150-$200 billion over the period 1983-1989.

Solution.

- The President supported the bipartisan recommendations of the National Commission, which Congress has now enacted. These reforms will:

  -- Reduce the benefit-revenue gap by $165 billion over 1983-1989, thereby ensuring that there will be sufficient funds to pay Social Security benefits over this period.

  -- Eliminate the long-term (75-year) gap, thereby ensuring that Social Security will have sufficient funds to pay benefits indefinitely into the future.

  -- Ensure future solvency of the Social Security Trust Funds by providing a "trigger" mechanism to change basis of the cost-of-living adjustment (COLA) from the Consumer Price Index (CPI) to the lesser of the wage growth index or the CPI whenever, beginning in 1985, the Trust Fund reserve ratio falls below 15 percent (20 percent after 1988); "catch-up" benefits would be paid when the Trust Fund reserve ratio exceeds 32 percent.

- Specific mechanisms.

  -- Raise $25 billion over 1983-89, and 0.44% of payroll over the long run, by expanding Social Security coverage to newly hired federal employees and all non-profit employees, and by prohibiting withdrawal of state and local employees from coverage.

  -- Raise $40 billion over 1983-89 by advancing the scheduled 1985 payroll tax increase to 1984, with a refundable income tax credit during 1984 only for the worker's share, and by advancing 70% of the scheduled 1990 increase to 1988.

-- Raise $18 billion over 1983-1989, and 0.17% of payroll over the long run, by increasing the self-employed tax rate to the combined employer/employee rate, with income tax credits to offset the increases through 1989 and income tax deductions for half the full tax starting in 1990. The SECA tax base will be adjusted, starting in 1990, to achieve parity between employees and the self-employed.

-- Raise $27 billion over 1983-1989, and 0.62% of payroll over the long run, through inclusion of up to 50% of Social Security benefits in taxable income for those beneficiaries with annual adjusted gross incomes from non-Social Security sources plus interest from tax-exempt bonds over $25,000 (if single) or over $32,000 (if married), with the proceeds from such taxation credited to Social Security.

-- Raise $39 billion over 1983-1989, and 0.30% over the long run, by delaying the 1983 COLA increase by 6 months, paying COLAs on January 1 of each year thereafter, rather than on July 1.

-- Raise $17 billion over 1983-1989 through a one-time "catch up" federal payment to Social Security for past military service credits and unnegotiated Social Security credits.

-- Increase opportunities for continued work by reducing the earnings test penalty on income earned after age 65, and increasing the credit for delayed retirement.

-- Raise 0.68% of payroll over the long run by slowly raising the retirement age starting in the year 2000 to 67 in the year 2022.

-- Improve adequacy of the program by changing the conditions under which divorced spouses and widow(er)s could receive benefits and improving benefits for disabled widow(er)s and widow(er)s whose spouses died at a relatively young age.

-- Improve equity by removing certain gender-based distinctions in the program.

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