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Controlling the uncontrollables: An examination of the capacity of Congress to reduce government expenditures for entitlements

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CONTROLLING THE UNCONTROLLABLES--
AN EXAMINATION OF THE CAPACITY OF CONGRESS TO
REDUCE GOVERNMENT EXPENDITURES FOR ENTITLEMENTS

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ABBREVIATIONS USED IN THE TEXT

Agencies, Acts and Indexes:

CBO............Congressional Budget Office
OMB............Office of Management and Budget
CPI............Consumer Price Index
CSR............Civil Service Retirement System
AIME...........Average Indexed Monthly Earnings
COLA...........Cost of Living Adjustment
CPS............Current Population Survey
TEFRA..........Tax Equity and Fiscal Responsibility

Programs:

SSI.............Supplemental Security Income
UI..............Unemployment Insurance
TAA.............Trade Adjustment Assistance
GSL.............Guaranteed Student Loans
AFDC............Aid to Families With Dependent Children
CETA............Comprehensive Employment and Trading Act
GRS.............General Revenue Sharing
OASDI...........Old Age,Survivors and Disability Insurance
HI..............Hospital Insurance
SMI ....Supplemental Medical Insurance

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TABLES (continued)

TABLES (continued)

CHAPTER ONE: INTRODUCTION

According to most accounts, the largest budget reduction in American history was enacted with the 1981 Omnibus Reconciliation Act.[1] The bulk of these reductions was in the domestic transfer programs, particularly entitlements, and yet general federal spending continued its increase in fiscal year 1982, as did overall authority and spending for the domestic transfer programs. Contrary to popular belief, what was reduced was the percentage growth rate of federal budget authority and outlays in selected programs from what they could have been, not the growth of federal spending per se.

Much of the growth in the federal budget is associated with the continuing expansion of what are called budget uncontrollables--interest on the public debt, farm price supports, prior contractual obligations, general revenue sharing and entitlements.[2] Uncontrollable spending--and this is synonymous with relatively uncontrollable under existing law--has risen from 73% of total budget outlays in fiscal 1975, to over 76% in fiscal 1981.[3] The dominant form of these uncontrollables is the entitlement category. It has risen from a $32.3 billion dollar budget commitment in 1965, to a $316.6 billion dollar obligation for fiscal 1981.[4] The major entitlements have more than doubled since 1973, and many have tripled(See Tables 1-A and 1-B).

But having said all that simply puts one safely within the descriptive perspective of the regular literature concerning United States budget deficits and the problems of spending controls. To understand some of the deeper dimensions of these problems requires a focused, concentrated examination of the principal issues which comprise the spending control debate.

TABLE 1-A U.S. BUDGETARY OUTLAYS FOR HEALTH CARE, FY 1973-1985

(In Billions of Dollars)

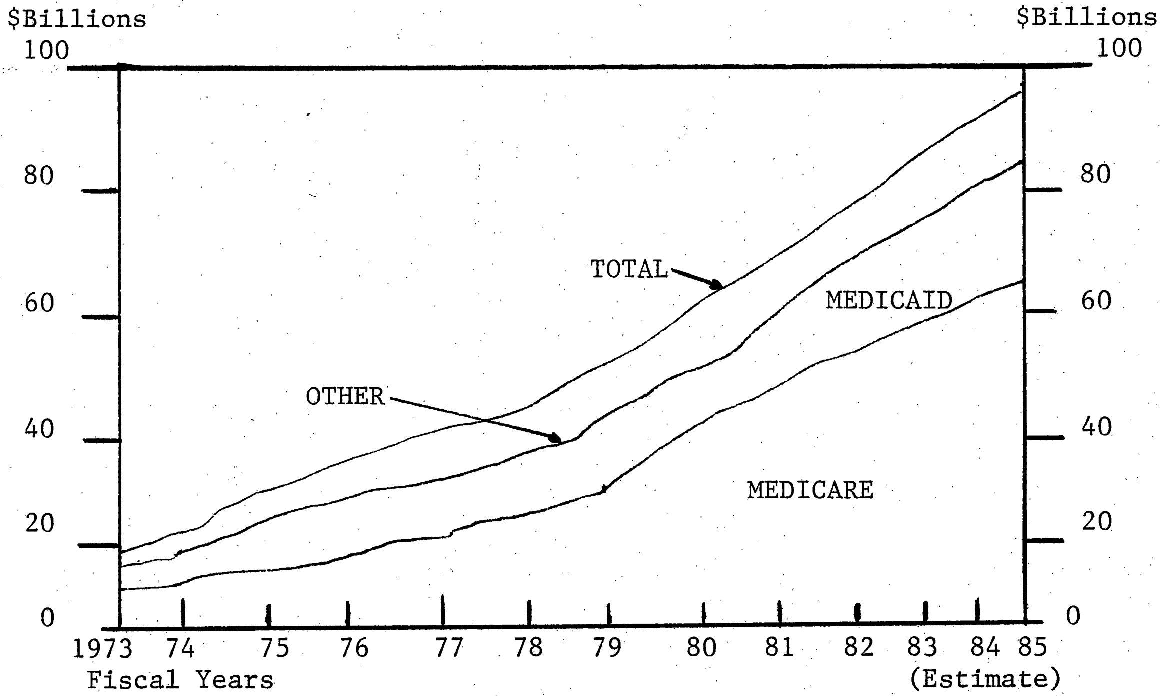
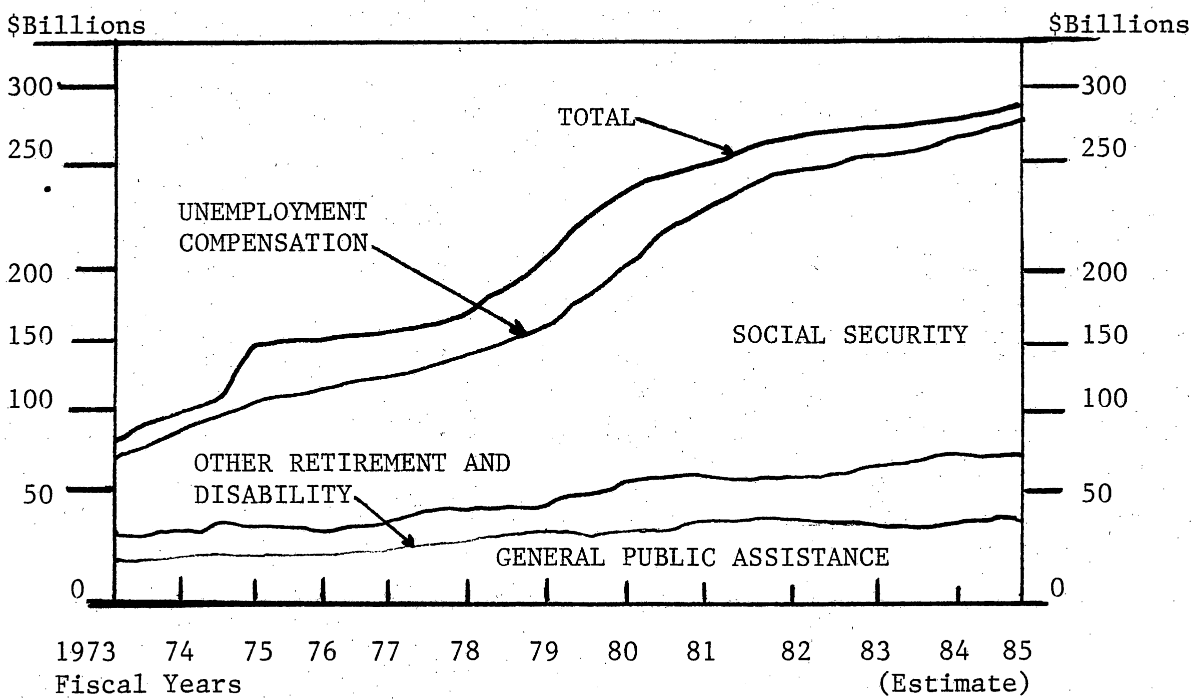


TABLE 1-B U.S. BUDGETARY OUTLAYS FOR INCOME SECURITY, FY 1973-1985

(In Billions of Dollars)



SOURCE: The U.S. Budget in Brief for Fiscal Year 1983, Office of Management and Budget, pp. 57, 60.

One such issue, and the one this thesis examines, is entitlements. What exactly are entitlements and how do they work? Why are they so difficult to regulate financially? Once legislated, can they in fact be controlled? If so, how?

The purpose of this thesis is to answer those questions in order to contribute to an understanding of how and why entitlement outlays remain such a persistent problem of control within the congressional budgetary process--a process originally designed to give Congress the power to control federal spending. Entitlement spending, representing nearly 50% of annual budgetary authority and growing,[5] has not been brought under such control. Is Congress--even in cooperation with the President and further, even without creating any new entitlements--capable of holding down entitlement spending? This thesis argues that without fundamental structural change in the way entitlements are handled within the budgetary process, Congress does not now have the capacity to control entitlement spending.

Methodology and Limitations

This thesis will utilize the style of policy analysis popularized by the Congressional Budget Office under Alice M. Rivlin. Such style employs a modified content analysis of government documents and other data to ascertain the prevailing patterns relevant to one or several issues (in this case, entitlements); a presentation of the available plans, options, and strategies to modify or fundamentally change those patterns, with an analysis of the strengths and weaknesses of each option or strategy; and finally an evaluation of a broad compilation of suggested future options and strategies, including estimated cost factors associated with each of them.

This methodology will be used to investigate and discuss:

(a.) The nature of entitlements within the budgetary process, including the major problems in controlling entitlement spending.

(b.) Congressional options for controlling entitlement spending in the 1980's.

(c.) Future strategies and options for controlling specific types of entitlement spending.

There are several important limitations inherent in this thesis. One is the absence of a lengthy historical perspective outside of that necessary to properly identify entitlements and how they became such a gargantuan budgetary problem. This thesis seeks to add to modern scholarship on whether and how congressional spending can be brought back into a controlled focus more appropriately tailored to this nation's means, resources, and needs. Since the first moderately effective effort at putting at least a temporary leash on entitlement spending was not enacted until the 1980 Reconciliation Act, for the purposes of this thesis, a lengthier, more detailed historical perspective is not justified. It is enough to note that the political strategies of the 1960's and 1970's mainly sought to expand government spending, not to reduce it; and even when those strategies did seek fiscal restraint, entitlements were never successfully curtailed, they just grew into bigger budgetary obligations.

Furthermore, the pre-1980's period has already been abundantly described within the available literature, although discussions of entitlement spending were most usually seen as only one of numerous budgetary irritants rather than a problem of special significance.[6]

The second limitation is that this thesis focuses almost exclusively on entitlements as a problem of budgetary control. It does not discuss entitlements as an issue of class-oriented redistributive politics, although entitlements, as a major dimension of the federal government's transfer payment-redistribution efforts, is most certainly such an issue.[7] Restrictions of scope and organization preclude such a discussion here.

The third major limitation is one of sources. Even though there has recently been much hue and cry concerning entitlements, there is very little primary literature available which analyzes entitlements within the budgetary process. The preponderance of the literature that is available is from journals like the Congressional Quarterly and the National Journal, newspapers, and the special projects done by various authors under the umbrella of the Congressional Budget Office publications. The sources utilized in this thesis reflect that paucity.

This Thesis and the Currently Available Literature

All of the currently published literature which purports to describe, analyze, examine or otherwise discuss the federal budget and its major problems mention entitlements at least once, and usually several times. Some sources, like Ellwood's recent study of the 1981 Reconciliation Act budget cuts,[8] spend a great deal of time describing and defining entitlements and other income transfer programs. Ippolito's contributions are of that ilk,[9] as is Schick's, Congress and Money.[10] But therein lies the major problem of entitlements within the literature: the lack of a consistent, coherent and accurate definition/description of exactly what programs are entitlements. This is not to say there is no standard definition--there certainly is. Entitlements are legislated government "programs in which spending is governed by a law making all who meet their requirements eligible to receive payments."[11] But apparently, in so innocuous a definition, there is ample room for interpretation.

Thus, in Ellwood, the Food Stamps Program is an entitlement, and in at least one major Congressional Budget Office publication, it is also identified as such,[12] while in another, it is not.[13] Ellwood, Schick and Ippolito all include interest on the public debt as part of what is called mandatory spending, and/or the general category of uncontrollables. The CBO, in one study,[14] labels that interest as an entitlement, as does the Donnelly special report on entitlements in a recent Congressional Quarterly.[15] That same CBO report also identifies the General Revenue Sharing and Title XX Social Service Programs as entitlements, contrary to most of the other literature on entitlements.

This thesis tries to make sense out of what is essentially a hodge-podge. There are certain basic programs which the entire literature agrees are entitlements: Social Security, Medicare, Medicaid, Railroad Retirement, Guaranteed Student Loans, Veteran's Compensation, Military Retirement, etc. There are also quite a few arguable programs, the majority of which have already been mentioned above. This thesis will rely on a critical review of CBO and OMB sources to arrive at a consistent and hopefully accurate list of current entitlement programs.[16]

Beyond that identification of entitlements is the issue of congressional control of entitlement spending within the present budgetary process. Control, in this thesis, means Congress having the ability, under current law and the structure of the budgetary process, to enact effective constraints on the growth of federal spending for entitlements. The issue is not the growth of entitlement spending versus no growth of such spending; it is the relatively unfettered, undisciplined growth versus controlled, balanced growth of entitlement spending. The issue is congressional capacity to increase or decrease entitlement spending as a budgetary outcome associated with a deliberate plan of budgetary priorities.

Theoretically, Congress has the regular power and capacity to pass any legislation it so desires concerning the budget, and to use any of a variety of budgetary devices to keep programmatic spending within a disciplined range and limitation. In fact, most critics, including the Reagan administration, blame any dearth of congressional control of programmatic spending on a simple congressional lack of will, not on structural incapacity. However, once Congress accords programs the status of entitlements within the budgetary process, one practical result is that Congress has also legislated itself a diminished power to constrain spending for those programs. By its very nature within the present budgetary process, entitlement spending becomes self-perpetuating and virtually automatic. Entitlements enjoy a favored, protected status and their annual spending totals are extremely difficult to predict. Of course, Congress can "merely" strip an individual program of its entitlement status, as it did the Food Stamp Program. However, that is not only a rare congressional action, it also begs the question. Taking entitlement status from individual programs avoids, rather than confronts squarely the issue of whether Congress can, under current law and the present structure of the budgetary process, control entitlement spending once programs are designated entitlements. In the last few years it certainly has not done so, even when it has tried to, discrediting somewhat the view that the unfettered growth of entitlement spending has only been by deliberate design, rather than because of any congressional loss of control. Again, this thesis argues that without structural changes in the way entitlements now fit within the budgetary process, Congress cannot control entitlement spending. It is more than a lack of will--it is a lack of structural capacity.

CHAPTER II: AN OVERVIEW OF CURRENT ENTITLEMENTS---
WHAT ARE ENTITLEMENTS AND HOW DO THEY WORK?

A. What Are Entitlements Within The Budgetary Process?

Entitlements as income-transfer programs, obligate payments--cash or in-kind--to beneficiaries who meet eligibility requirements established by the authorizing legislation which creates the program. Persons become 'entitled' to program benefits when they apply and meet specified program criteria such as an income level, age level, marital status, prior contributions to a trust fund, etc.[1]

The authorization process which creates each entitlement--and indeed each congressionally established federal program[2]--not only mandates eligibility rules and requirements for each entitlement, it also grants unlimited (as needed) amounts of budget authority to the entitlement, effectively putting annual increases for entitlements on automatic pilot. In fact, annual outlays for entitlements are automatically determined by the numbers of eligible applicants and the current benefit levels mandated for the program, rather than by the appropriations process. There are two principal variations on this theme: indexed entitlements, whose estimated expenditure increases are annually listed in the legislated appropriations acts as a matter of course without congressional control of their funding levels (almost without exception supported by trust fund revenues); and appropriated entitlements, whose estimated expenditures must technically go through the regular appropriations committee procedures and are thus theoretically subject to annual congressional control of their level of funding (supported by general revenue sources).[3] However, in practice, because yearly costs for all of the entitlements are fundamentally dependent on economic conditions (e.g., inflation, high unemployment, etc.), the numbers of eligible beneficiaries, eligibility rules and any inherent restrictions on benefit levels,[4] the annual expenditure and outlay levels of both varieties of entitlements are determined by the authorizing legislation, not the yearly appropriations procedures.[5]

The large income-transfer system which entitlements dominate consists of two categories: social insurance programs and welfare. The social insurance category represents the biggest share of income-transfer expenditures. In fact just one social insurance program--Social Security--obligated more than 20% of the entire 1982 fiscal budget.[6]

Social insurance programs allocate cash benefits to individuals who have contributed to the support pool of those programs through specified taxes or other devices, and who also are aged, retired, unemployed, or disabled, with recipient wealth or income level being irrelevant to benefits. The single largest social insurance program and entitlement is the Old Age, Survivors and Disability Insurance Program (Social Security). The other programs included in this category are Railroad Retirement, Civil Service Retirement, other government retirement and pensions (e.g. Federal Reserve Board Employees' Retirement, etc.), Federal/State Unemployment Insurance, Veterans' Compensation, disabled miners and coal-miners' benefits, and Medicare. They are all entitlements.[7]

Welfare programs base benefit eligibility on needs analyses-low income status, family composition, assets, etc.-rather than on any prior contributions to a trust fund. Most of the government's income-transfer programs related specifically to poverty are in this category, including the two largest ones, Aid to Families With Dependent Children (AFDC) and Medicaid. The other eight welfare programs are Supplementary Security Income, Veterans' Pensions, Food Stamps, Child (and elderly) Nutrition programs, Low-income Housing Assistance, Earned Income Tax Credit, General State/Meal Assistance to the

Needy, and the Emergency Assistance Program. All but the Low-income Housing Assistance Program and Food Stamps are entitlements.[8]

Table II-1 shows a summary listing of these entitlements and their outlays from fiscal years 1972-1985 (estimates).

Other entitlement programs which do not really fit into either the social insurance or welfare categories include the Guaranteed Student Loan Program (Special Allowances), interest on the public debt, Farm Price Support Loans (Rice, Honey, Tobacco, Upland Cotton, Wool, Mohair), Commodity Export Suspension Protection and Grants to States for Social Services.[9] In all, there are approximately 35 inclusive federal entitlement program categories and 70 individual programs.[10] The categories are all listed in Table II-2.

B. How Do Entitlements Work?

Once established into law, each entitlement program inherits a specific constitutency, including beneficiaries, employment-related implementers and other advocates.[11] Most entitlements also come into being with an indexation or other cost-of-living adjustment device attached, which annually increases the dollar amounts of benefits receivable in response to shifting economic changes. This feature is discussed in a following section. It should be noted here, however, that while retaining some positive advantages, this indexation/COLA characteristic is one of the distinctive ingredients making entitlement expenditures uncontrollable.

Each entitlement is administered directly by a federal agency, state agency or a combination of the two. Social Security and the other trust fund entitlements are generally administered by federal agencies, and the means-tested entitlements are either direct federal administration (e.g.

TABLE II-1

FEDERAL OUTLAYS FOR GENERAL ENTITLEMENTS AS INCOME-TRANSFER PROGRAMS,
FISCAL YEAR 1972 - 1986
(In Billions of Dollars)

Function and Subfunction	Actual										Estimate			
	1973	1974	1975	1976	TQ[1]	1977	1978	1979	1980	1981	1982	1983	1984	19
Department of Defense-Military:														
Retired military personnel	4.4	5.1	6.2	7.3	1.9	8.2	9.2	10.3	11.9	13.7	15.0	16.5	17.7	18
Agriculture:														
Farm Income Stabilization	4.1	1.5	0.8	1.6	0.3	4.5	6.6	4.8	3.5	4.0	7.0	2.9	3.6	3
Income Security:														
General retirement & disability insurance	51.7	58.6	69.3	77.2	20.9	88.6	97.2	108.5	123.7	145.0	162.3	175.7	190.6	204
Federal employee retirement and disability	4.5	5.6	7.0	8.2	2.3	9.5	10.7	12.4	14.7	17.5	19.4	21.1	22.5	24
Unemployment compensation	5.4	6.1	13.5	19.5	4.0	15.3	11.8	10.7	18.0	19.7	25.2	22.6	19.8	18
Housing assistance	1.6	1.8	2.1	2.5	0.7	3.0	3.7	4.4	5.5	6.9	8.2	8.9	9.4	9
Food and nutrition assistance	3.6	4.4	6.6	8.0	1.8	8.5	8.9	10.8	14.0	16.2	15.6	13.8	14.0	14
Other income security	6.2	7.9	10.1	12.2	3.1	13.0	13.9	13.4	17.2	19.7	20.2	19.8	18.6	19
Income security for veterans	6.5	6.8	7.9	8.4	2.1	9.2	9.7	10.8	11.7	12.9	14.1	14.8	15.4	16
Health care services	14.6	17.3	22.3	27.5	7.2	32.3	36.7	42.5	50.1	60.4	68.0	72.7	79.6	88

SOURCE: The U.S. Budget in Brief, 1983, Office of Management and Budget, pp. 80-83.

TABLE II-2: INCLUSIVE CATEGORIES FOR CURRENT FEDERAL ENTITLEMENT PROGRAMS

1. Federal Judiciary Survivors Benefits
2. U.S. Coast Guard Retirement Pay
3. Federal Employment Retirement and Disability Programs
   (a). Civil Service Retirement
   (b). Federal Reserve Board Employees Retirement
   (c). CIA Retirement and Disability
   (d). Foreign Service Retirement and Disability
4. U.S. Presidents' Pensions
5. U.S. Public Health Service Commissioned Officers Retirement
6. Federal Employment Compensation Act
7. Special Benefits for Disabled Coal Miners (HHS)
8. Special Benefits for Disabled Coal Miners (Dept. of Labor)
9. Guaranteed Student Loan Program (Special Allowances)
10. Social Security: Federal Old Age Survivors and Disability Insurance (OASDI)
11. Social Security: Disability and Hospital Insurance
12. Child Nutrition Programs
    (a). National School Lunch (Commodity Subsidy)
    (b). National School Lunch (Cash Subsidy)
    (c). School Breakfast (Cash Subsidy)
    (d). Summer Food Service (Cash Subsidy)
    (e). Child Care Feeding (Commodity Subsidy)
    (f). Child Care Feeding (Cash Subsidy)
13. Railroad Retirement
14. General Revenue Sharing
15. Supplemental Security Income
16. Dept. of Defense-Military Retired Pay and Benefits
17. Veterans' Pensions
18. Price Support Loans for Rice, Honey, Tobacco, Upland Cotton, Wool, Mohair
19. Dairy Price Supports
20. Medicare (Part A)
21. Medicare (Part B)
22. Medicaid
23. Special Milk Program
24. Food Donations-Elderly Feeding Programs
25. Commodity Export Suspension Protection
26. Deficiency and Disaster Payments for Wheat, Rice, Feed grains, Cotton Price Programs
27. Grants to States for Social Services
28. Interest on the Public Debt
29. Aid to Families With Dependent Children (AFDC)
30. Earned Income Tax Credit
31. Claims Against the Government
32. Forest Service Assistance
33. Subsidies to Bureau of Land Management
34. Interest on Refunded Internal Revenue Collections
35. Internal Revenue Collections and Interest for Puerto Rico

SOURCE: Compiled from CBO and OMB lists contained in, Indexing With The Consumer Price Index, 1981, pp. 23-30; Congressional Quarterly, 2/6/82, p. 193.

Social Security) or the combination federal-state (e.g. AFDC, Medicaid). Decreases in program funding thus will primarily impact the federal budget or will significantly affect both federal and state budgets. This point is also discussed in the next chapter.

Payments are handled in a variety of ways. Medicare, which provides health insurance for more than 20 million 65-and-over clients, plus 3 million disabled patients, utilizes federal reimbursements for individual medical costs directly to the attending medical institution or physicians' unit. Medicaid, financed by a state-federal matching fund arrangement and aimed at low-income aged, blind and disabled persons, utilizes state disbursal or medical payment stickers to individuals, and reimbursements to nursing home and other institutional facilities for services rendered.[12] AFDC, TAA and UI send monthly cash (in the form of negotiable checks) to eligible individuals, and the Food Stamps Program sends monthly food coupons. Farm price support loans, commodity purchases and direct payments to farmers are handled by the federal Commodity Credit Corporation.[13]

The General Revenue Sharing Program and the Title XX Social Services Program make direct grants to state and local government rather than to individuals. Since 1981, the GRS grants have been mandated directly to county, city and township jurisdictions, and Title XX to state-administered day care, handicapped, elderly, family planning and other social services. Both programs allocate their funds based on an area's per capita income, population demographics, tax factors, etc. Both are also capped entitlements and thus their annual expenditure increases are neither unbridled nor automatic.[14]

The Guaranteed Student Loan Program allocates educational loan subsidies for students whose parents make $30,000 or less. Private lending institutions grant the loans and advance the funds, with the federal government guaranteeing repayment. The Child Nutrition Program annually gives federal grants to school districts to provide subsidized lunches, breakfasts and other food supplements to enrolled school children.[15]

In summary, entitlement programs operate as consistent, entrenched income-transfer devices. Once established, they assume a structural existence very resistant to either dismantlement or more than cosmetic adjustment. They become more or less "permanent" budgetary programs which are guaranteed regular funding.

C. Entitlements and the Budgetary Process

Before the passage and implementation of the 1974 Budget and Impoundment Act, entitlement spending went virtually unregulated. Congressional entitling committees were "beneficiary-centered." Their major purpose was the production of new entitlements and increasing benefits for existing ones.[16] This privileged status within the congressional budget process, pre-1974, caused entitlements to be the "fastest-growing portion of the federal budget as well as the single most important factor in the year-to-year rise in federal spending," in the decade prior to the implementation of the Budget Act.[17]

Currently, that status remains under the new budgetary process, although several Budget Act stipulations seek to terminate it, at least for new entitlements. Those stipulations are:[18]

(a). Section 303, which prohibits either House or Senate consideration during a fiscal year of new revenue bills, spending or entitlement legislation, etc., before congressional consideration and adoption of the first budget resolution for the next fiscal year. Advance revenue and appropriations bills which take effect after the next fiscal year are exempted, but advance entitlement authorization is not.

(b). Section 401 (a), which restricts new contract and borrowing authority, and mandates that new entitlements cannot become effective before the beginning of the next fiscal year.

(c). Section 401 (b), which mandates the referral of new entitlement authorizations exceeding an authorizing committee's Section 302 budgetary allocation to the Appropriations Committee.

Within the past and present budget processes, entitlements are a part of the congressional backdoor spending practices. The other two principal types are borrowing and contract authority. All three have long enjoyed favored status with authorizing committees and others, since they provide convenient access for bypassing the Appropriations Committees in getting programs funded.[19] The main aim of the Budget Act stipulations mentioned above is to subject all three types of backdoor spending programs to the discipline of the budget process, and to remove them from special budgetary treatment. That aim, for the most part, has been attained more with new contract and borrowing authority programs than with new entitlements, although one major result of the Budget Act stipulations has been to make proposed new entitlements, theoretically, compete more equally with other claims on the federal budget. The stipulations do not affect existing backdoor programs.[20]

Utilizing the authority of these stipulations, the Budget Committees have used procedural points of order, plus the generation of negative publicity concerning the immediate and future costs of newly proposed entitlements, as weapons to hold down the growth of new entitlements. The Appropriations Committees have depended on Section 401 (b), but in effect have only been able to prevent the proliferation of small entitlements through such dependence. The Appropriations Committees have been relatively ineffective in using 401 (b) to deal with the few large entitlements proposed since 1975.[21]

Through some combination of efforts by the Budget and Appropriations Committees, and other political factors, very few new entitlements have been created since the Budget Act's implementation. However, the real growth in entitlement spending has been in the programs pre-dating the Act's implementation and still currently viable, since the language of the law left them as they were before: virtually unregulated.[22]

The extent of current major entitlements and their impact on the federal budget may be gauged from Table II-3, which shows total outlay expenditures for inclusive categories of major entitlement programs for fiscal year 1982.

TABLE II-3

FEDERAL OUTLAYS FOR CURRENT ENTITLEMENT PROGRAMS, FISCAL YEAR 1982

PROGRAM	TOTAL OUTLAYS
Defense	
Retired military personnel pay	$ 15,037,341,000
Operations and maintenance, claims	155,477,000
Agriculture	
Farm price supports	11,140,436,000
Transportation	
Coast Guard retirement pay	288,000,000
Railroad litigation	552,000,000
Education, Training, Employment and Social Services	
Student loan insurance	3,067,500,000
Social service grants	2,720,000,000
Health	
Medicaid	17,874,000,000
Medicare supplementary insurance	15,456,000,000
Medicare hospital insurance	33,420,000,000
Income Security	
Special benefits for disabled coal miners	1,094,765,000
Social Security old-age and survivors' insurance	136,252,304,000
Social Security disability	18,762,000,000
Black lung disability	744,777,000
Railroad retirement	5,289,000,000
Federal employee retirement and disability	20,272,676,000
Unemployment compensation	23,661,672,000
Child nutrition *	120,016,000
Supplemental Security Income	7,983,330,000
Aid to Families with Dependent Children	8,072,698,000
Earned Income Tax Credit	1,252,000,000
Veterans	
Compensation and benefits	14,260,300,000
Readjustment and education	2,045,200,000

TABLE II-3 (Continued)

PROGRAM	TOTAL OUTLAYS
General Government	
Claims against the government	377,500,000
Fiscal Assistance	
General revenue sharing	4,566,700,000
Forest service	231,841,000
Bureau of Land Management	645,800,000
Internal Revenue collections for Puerto Rico	245,000,000
Interest	
Interest on the public debt	118,607,000,000
Interest on refunded Internal Revenue Collections	1,450,000,000

* Entitlement status of some child nutrition programs in dispute.

SOURCE: Compiled by Congressional Quarterly from February 1, 1982, data supplied by the Congressional Budget Office. Cited in, The Congressional Quarterly, 2/6/82, p. 193.

CHAPTER III: THE NATURE OF ENTITLEMENT SPENDING WITHIN THE BUDGETARY PROCESS--THE PRINCIPAL PROBLEMS IN CONTROLLING ENTITLEMENTS

Within the present budgetary process, there are three major structural components associated with virtually all entitlements: indexation, program interaction and the number of beneficiaries. All three--singly and in combination--radically affect the annual increases in entitlement spending. They are the three components most responsible for the lack of congressional control over the relationship between entitlement spending and the budget.

A. Indexing for Inflation

Indexing is a legislated attempt to adjust automatically the benefit levels or eligibility criteria of a program, expressed in current dollar terms, in order to neutralize the effects of a rise in prices (or, what is the same thing, a steady fall in the dollar's purchasing power).[1] It is an attempt to preserve the real value of program benefits to clients through escalators, cost-of-living adjustments, etc.[2] Advantages of indexation include: (a). eliminating the need for Congress to legislate adjustments in certain programs annually or on an ad hoc basis which would unnecessarily risk re-opening debate on the entirety of the program involved; (b). reducing client uncertainty regarding future benefit levels; and (c). decreasing the threat of election-year benefit increases for political purposes.[3]

Major disadvantages of indexation include: (a). the increase in the share of the U.S. budget that is essentially on 'automatic pilot', making it much more difficult to reduce or control federal spending; (b). the inequity inherent in providing some beneficiaries the relative ability to keep up with inflation while wage earners have to fend for themselves and are victimized by inflation; and (c). the increased uncertainty because much of the budget is effectively controlled by economic conditions which are very difficult to predict.[4]

The major provisions indexed in federal programs are benefit levels, eligibility criteria, ceilings or floors on benefits payable and formulas for agricultural parity. The indexation of the benefit level is the most common form of indexing, calling for a proportionate increase in the levels of benefits payable with changes in the specific indexing measure. The Consumer Price Index is the most popular index presently used.[5]

By contrast, the indexing of eligibility criteria is principally utilized for programs aimed at the economically disadvantaged. Changing price levels inevitably affect the meaning and significance of both the federally defined poverty level, and simultaneously a designated income eligibility standard. Thus such price changes necessitate at least a periodic adjustment of eligibility criteria and, consequently, the number of program participants. While justly criticized for not accurately representing the consumption habits of the economically disadvantaged, the CPI remains the regular measurement used to adjust eligibility criteria.[6]

Ceilings indexation is most characteristic of programs like Medicaid and Medicare to prevent or reduce excessive claims for payments. It often has the reverse effect, however, since there is little incentive for health care providers to hold down medical costs in any case. Consequently any indexation simply helps motivate the long-time trend of skyrocketing health care costs as a function of the health care market, with the cap on claims reimbursements rising simultaneously with the increase in costs(and costs are directly affected by their fees).[7]

The agricultural parity formula is an indexation of the relative prices of farm goods bought by farmers compared to the prices of goods they sell. It is utilized to determine the annual degree of federal support for farm incomes, but has been criticized both for being anachronistic and self-perpetuating. Its pricing reference base, for example, is still 1910-1914, and both production techniques and consumption habits, among other things, have substantially changed since then. It also contains a feedback component that consistently inflates agricultural prices.[8]

By fiscal 1982, at least 1/3 of federal expenditures were directly tied to either the Consumer Price Index or other adjusters, and over 50% of the entire budget was tied to some form of direct or indirect indexation. From 1966-1980, the quantity of federal programs containing some form of direct indexation grew from 17 to 90. The impact of this tendency is reflected in the fact that even a 1% increase in the CPI will automatically result in over $2 billion dollars of additional, required government spending, based on 1981-1982 current dollar values.[9]

What Government Programs are Indexed?

The first major federal program to be directly and officially tied to a price index was the Civil Service Retirement System in 1962. Indexing was accomplished as a viable, efficient alternative to the previous chore of laboriously repeating one-time adjustments in retirement benefits as the cost of living changed. This federal indexation established a strong precedent which was followed up in 1971 with the indexation of the Food Stamp Program, and in 1972 with the indexation of the Social Security System, which is today the largest of all federally indexed programs. There was a precipitous spurt of program indexations after that date, resulting in at least 90 currently indexed federal programs. They can be divided into indexed entitlements, indexed appropriations, and quasi-indexed programs.[10] Indexed entitlements and appropriations have their benefit levels indexed (although appropriations remain affected also by the discretionary congressional review process). Quasi-indexed programs either have their indexed provisions as a ceiling or floor on program benefits payable, their indexed provisions not being operative under certain conditions, or have components other than benefits indexed (e.g., eligibility criteria). An example of a quasi-indexed program is CETA.[11] Tables III-1 and III-2 show indexed entitlements, indexed appropriations and quasi-indexed entitlements and appropriations.

The Impact of Indexation

The general consequences of indexation depend upon both the type of price change occurring in the economy and the kind of measurement used to analyze that change. On the one hand, for example, when price increases are across-the-board indexation can rectify or stabilize loss of relative income parity by those on fixed or marginal incomes, in effect reestablishing the status quo, and "preserving the initial income distribution."[12] Indexation associated with across-the-board price increases does not cause the percentage rates of government spending to rise as a share of GNP.[13] On the other hand, indexation of a relative price change causes income imbalance and redistribution. This

TABLE III-1. INDEXED ENTITLEMENT PROGRAMS

PROGRAM	DATE OF INDEXATION	ESTIMATED 1981 OUTLAYS (IN BILLIONS)
1. Federal Judiciary Survivors Benefits	1956	0.002
2. U.S. Coast Guard Retirement Pay	1958	0.232
3. Civil Service Retirement System	1962	17.326
4. Military Retired Pay	1963	13.781
5. U.S. Presidents' Pensions	1963 (effective 1964)	0.0002
6. Public Health Service Commissioned Officers Retirement	1965	0.077
7. Federal Reserve Board Employees Retirement	1965	0.004
8. CIA Retirement and Disability System	1964 (effective 1966)	Classified
9. Federal Employment Compensation Act	1966	0.376
10. Special Benefits for Disabled Coal Miners (HHS)	1969	1.057
11. Guaranteed Student Loan Program (Special Allowances)	1976	0.401
12. Federal Old Age, Survivors and Disability Insurance (OASDI)	1972 (effective 1975)	140.117
13. Child Nutrition Programs National School Lunch Program (Commodity Subsidy) National School Lunch Program (Cash Subsidy) School Breakfast Program (Cash Subsidy) Summer Food Service (Cash Subsidy) Child Care Feeding (Commodity Subsidy) Child Care Feeding (Cash Subsidy)	Benefits: 1973, 1975, 1978 Eligibility: 1971, 1977	3.790

TABLE III-1 (continued)

PROGRAM	DATE OF INDEXATION	ESTIMATED 1981 OUTLAYS (IN BILLIONS)
14. Special Benefits for Disabled Coal Miners (DOL)	1974	0.922
15. Railroad Retirement Benefits	1974 (effective 1975)	5.296
16. Supplemental Security Income	1974 (effective 1975)	7.438
17. Foreign Service Retirement and Disability Fund	1976	0.174
18. Department of Defense: Survivor Benefit Plan Retired Serviceman's Family Protection Plan--Guaranteed Minimum	1972, 1974, 1978	0.322
19. Veterans' Pensions	1979	3.844
	TOTAL OUTLAYS	195.159

SOURCE: Indexing With the Consumer Price Index: Problems and Alternatives, Congreesional Budget Office (Washington, D.C.: U.S. Government Printer, 1981), pp. 23-30.

TABLE III-2. INDEXED PROGRAMS OTHER THAN ENTITLEMENTS, AND QUASI-INDEXED PROGRAMS

PROGRAM	CLASSIFICATION	DATE OF INDEXATION	ESTIMATED 1981 OUTLAYS (BILLIONS)
1. Price Support Loans Rice Honey Tobacco Upland Cotton Wool Mohair	Quasi-Indexed Entitlement	1949,1954, 1977,1978	0.068
2. Dairy Price Supports	Quasi-Indexed Entitlement	1949	0.925
3. Medicare (Part A)	Quasi-Indexed Entitlement	1965 (effective 1966)	27.625
4. Medicare (Part B)	Quasi-Indexed Entitlement	1972 (effective 1973)	12.650
5. Medicaid	Quasi-Indexed Entitlement	1974	16.026
6. Special Milk Program	Quasi-Indexed Entitlement	Benefits:1974 Eligibility:1973	0.163
7. Food Donations for the Elderly Feeding Program	Quasi-Indexed Entitlement	1975	0.085
8. Commodity Export Suspension Protection	Quasi-Indexed Entitlement	1977	0.0
9. Deficiency and Disaster Payments (Target Price Programs): Wheat Feedgrains Cotton Rice	Quasi-Indexed Entitlement	1979	0.753
10. Grants to States for Social Services	Quasi-Indexed Entitlement	1979	3.283
11. Overseas Station Allowances (State Dep.)	Quasi-Indexed Appropriation	1949	0.011
12. Overseas Station Allowances (Defense Dep.)	Quasi-Indexed Appropriation	1949	0.486

TABLE III-2 (continued)

PROGRAM	CLASSIFICATION	DATE OF INDEXATION	ESTIMATED 1981 OUTLAYS (BILLIONS)
13. OPM Cost-of-Living Allowance Program	Quasi-Indexed Appropriation	1949	0.120
14. Dep. of Interior Water and Power Resources Service Construction Program	Quasi-Indexed Appropriation	1954	0.590
15. Military Barracks and Officer Quarters Construction Program	Quasi-Indexed Appropriation	1968	0.228
16. Military Pay	Quasi-Indexed Appropriation	1968	33.588
17. Federal Civilian Pay (General Schedule)	Quasi-Indexed Appropriation	1970 (effective 1971)	38.969
18. Federal Civilian Pay (Blue Collar)	Quasi-Indexed Appropriation	1968 (effective 1972)	10.368
19. Food Stamp Program	Indexed Appropriation	1971	10.954
20. Legal Services	Quasi-Indexed Appropriation	1972	0.317
21. Community Services Administration, Community Action Operations: Local Initiative Senior Opportunities State Economic Opportunity Community Food and Nutrition Energy Conservation Services Youth Sports Program	Quasi-Indexed Appropriation	1972	0.488

TABLE III-2 (continued)

PROGRAM	CLASSIFICATION	DATE OF INDEXATION	ESTIMATED 1981 OUTLAYS (BILLIONS)
22. Health Scholarships: National Health Service Corps Scholarships Indian Health Scholarships	Indexed Appropriation	1976	0.038
23. Foster Grandparents	Quasi-Indexed Appropriation	1973 (effective 1974)	0.048
24. Senior Companions	Quasi-Indexed Appropriations	1973 (effective 1974)	0.013
25. Basic Education Opportunity Grants	Indexed Appropriation	1974	2.353
26. Supplemental Education Opportunity Grants	Indexed Appropriation	1974	0.370
27. Senior Community Service Employment and Training Service	Quasi-Indexed Appropriation	1974	0.265
28. Lower Income Housing Assistance (Section 8)	Indexed Appropriation	1974	3.070
29. Community Services Administration Energy Crisis Intervention Service	Quasi-Indexed Appropriation	1975	(Transferred to another program)
30. Territorial and International Affairs--Grants for the Northern Mariana Islands	Quasi-Indexed Appropriation	1976	0.024
31. Head Start	Quasi-Indexed Appropriation	1976	0.870
32. Follow Through	Quasi-Indexed Appropriation	1976	0.044

TABLE III-2 (continued)

PROGRAM	CLASSIFICATION	DATE OF INDEXATION	ESTIMATED 1981 OUTLAYS (BILLIONS)
33. Special Supplemental Food Program for Women, Infants, and Children (WIC)	Quasi-Indexed Appropriation	1978 (effective 1979)	0.862
34. National Direct Student Loans	Quasi-Indexed Appropriation	1980	0.201

SOURCE: Ibid, pp.23-30.

is based on the fact that a real reduction in productive output-supply is more often the cause of relative price changes, and the indexation aimed at restoring the purchasing power lost through the price change will not also restore the lack of supply. Consumers and beneficiaries will not have the same capacity to purchase the same amount of goods and services as before the shift in prices.[14] Indexation associated with relative price changes thus usually pressures increased government spending in income transfer programs since it will affect both benefit levels and eligibility through its impact on relative parity. The automatic $2 billion dollar approximate increase in government spending resulting from a 1% change in the CPI, as mentioned earlier, could actually be much more than that if indexed benefits rise faster than the beneficiaries' other income and thus cause a precipitous rise in program participation.[15] In other words, there will be more program participations once potential beneficiaries realize there is a strategic imbalance between specific program benefits and the other income available to them.

B. Program Interaction

Currently, approximately one-half of the U.S. budget is authorized for program expenditures providing benefits to individuals--entitlements and programs which operate like entitlements. Simultaneously, at least, one-half of all American households currently receive benefits from one or more of these income transfer programs, and over one-half of those beneficiaries receive assistance from two or more of these programs.[16] This multiple participation occurs because several federal programs are aimed at serving different needs of people who live in similar social conditions. In addition, benefits assistance from one program frequently depends on or is associated with some level of benefits from another program. Program interaction is the combination of multiple participations such that the beneficiaries of one program also receive assistance from another, and the receipt of the second benefits is dependent on the eligibility to receive the first. The extent of program interaction depends on the benefit formulas, eligibility rules and specific regulations of programs involved. Eligibility for Medicaid, for example, automatically comes with eligibility for AFDC and, for the most part, SSI. AFDC cash benefits are used to measure income for food stamp eligibility; consequently reductions in AFDC benefits would be compensated for, to some degree, by an increase in food stamp benefits and beneficiaries.[17]

Generally, needs-based or means-tested programs have a higher probability of interacting with both other means-tested programs and the social insurance programs, than the latter do with other programs. These interactions are most usually directed one way: the means-tested programs being affected by changes in the nonmeans-tested programs (and each other), but not the reverse. Changing AFDC benefits then would not be expected to change Social Security benefits more than marginally, yet changing/reducing Social Security benefits would be expected to seriously affect AFDC benefit levels.[18]

While comprehensive studies identifying all of the income transfer program interactions have not yet been done, it is definitely known that AFDC, Social Security (including Railroad Retirement) and Unemployment Insurance are all intimately connected with one or more of these programs: Supplemental Security Income, Food Stamps, school lunch, housing assistance, Medicare and Medicaid.[19] This phenomenon creates the probability of significantly large secondary effects on the budget, and seriously complicates accomplishing real reductions in budgetary spending.

Of the 9 programs listed above, Medicaid, Food Stamps, free/reduced price school lunches and subsidized housing assistance use AFDC benefits/eligibility to set their assistance levels (Medicaid through an eligibility linkage, the other three through income linkages). Changes in AFDC eligibility requirements and/or benefit levels would directly affect government spending in all four programs, but by very different degrees (See Table III-3). The categorical eligibility link between AFDC and Medicaid (households eligible for AFDC are automatically eligible for Medicaid) means that gains or losses in AFDC eligibility would also translate into eligibility gains or losses for Medicaid recipients, even though the amount of AFDC benefits has virtually no effect on the amount of Medicaid benefits. By comparison, most AFDC households are also automatically eligible for Food Stamps (only about 75% actually apply for them), and thus changing AFDC eligibility will of necessity affect Food Stamp benefits. Moreover, the benefit levels of AFDC recipients reciprocally affects the benefit levels for Food Stamps, such that the higher the AFDC benefits, the less the Food Stamp benefits allocated, and vice versa. A reduction in AFDC benefits for those on just these two programs, would be balanced by at least a 32% increase in Food Stamp outlays.[20]

TABLE III-3

PERCENT OF HOUSEHOLDS RECEIVING BENEFITS FROM AFDC[a] THAT PARTICIPATE IN PROGRAMS THAT INTERACT WITH AFDC

Programs that Interact with AFDC	Percent of AFDC Households Receiving Benefits from these Programs[b]
Medicaid	100[c]
Food Stamps	75
Free or Reduced-Price Lunch[d]	55
Housing Assistance Programs[e]	19

SOURCES: CBO estimates from March 1981 Current Population Survey (CPS) and program data. See, Interactions Among Programs Providing Benefits to Individuals, Congressional Budget Office, Washington, 1982, p. 8.

a. Aid to Families with Dependent Children

b. Percentages cannot be added but must be considered separately.

c. All AFDC recipients are covered by Medicaid, but not all actually receive medical benefits.

d. One or more children in the household regularly eat a free or reduced-price school lunch subsidized by the National School Lunch Program.

e. Household lives in a housing unit owned by a public agency or pays reduced rent subsidized through existing housing programs of the Housing Act of 1937 (P.L. 75-412), as amended.

Regarding free or reduced-price school lunches(a program in which there is a low income threshold for reduced price lunches, a lower one for free lunches and little, if any, other variation in benefits)the changes in AFDC benefit levels would not necessitate shifts in the school lunch program eligibility. That eligibility is dependent only on incomes below 13% of the poverty line and AFDC benefit levels would not increase drastically enough to raise the income levels to that cutoff. Even though approximately 55% of AFDC families have children on the school lunch program there is no high interaction between them in terms of benefits changes.[21]

The opposite is true of AFDC households also on rent or housing subsidies. Changes in AFDC benefit levels would directly affect their income-determined housing payments: an increase in AFDC benefits will mean some slight increase (depending on the formula used) in rent/housing payments; and a decrease in AFDC benefits, means a reduction in the rent/housing fees (generally about 25-30%).[22]

Medicare, Medicaid, SSI, Food Stamps and the housing assistance programs all interact with or are associated through eligibility with Social Security. Over 80% of Social Security beneficiaries (including Railroad Retirement) are also on Medicare, 15% on Medicaid, 9% on SSI, 8% on food stamps and 5% in subsidized housing/rental assistance (See Table III - 4). Changes in Social Security eligibility would affect Medicare eligibility, but the benefit levels of Medicare are not dependent on the benefit levels for Social Security. As for Medicaid, Social Security beneficiaries also participating in it are eligible through income and/or SSI participation. Reductions in Social Security benefits can directly

TABLE III-4: PERCENT OF HOUSEHOLDS RECEIVING BENEFITS FROM SOCIAL SECURITY[a] THAT PARTICIPATE IN PROGRAMS THAT INTERACT WITH SOCIAL SECURITY

Programs that Interact with Social Security and Patterns of Benefits	Percent of Social Security Households receiving Benefits from these programs[b]
Medicare	83
Medicaid	15
Supplemental Security Income (SSI)	9
Food Stamps	
Social Security and Food Stamps only or with programs other than SSI and AFDC[c]	3
Social Security, Food Stamps, either SSI or AFDC, and possibly other programs	5
TOTAL Food Stamps	8
Housing Assistance Programs[d]	
Social Security and Housing Assistance only or with programs other than SSI and AFDC[c]	4
Social Security, Housing Assistance, either SSI or AFDC, and possibly other programs	1
TOTAL Housing Assistance	5

SOURCES: CBO estimates from March 1981 Current Population Survey (CPS) and program data. See Interactions, op. cit., p. 11.

a. The term Social Security is used here to include both Old Age, Survivors, and Disability Insurance OASDI) and Railroad Retirement Programs.

b. Percentages cannot be added, but must be considered separately.

c. With this pattern of program participation, if the household also received SSI or AFDC benefits, these would offset virtually all changes in Social Security benefits.

d. Household lives in public housing or pays reduced rent subsidized by the existing housing programs of the Housing Act of 1937, as amended.

affect Medicaid eligibility by causing an income reduction sufficient to qualify one for SSI and Medicaid.[23]

SSI has a dollar for dollar compensation link with reduced benefits for Social Security. What keeps this interaction from being a perfect one-on-one offset is the 9% Social Security-SSI participation correspondence, and the reciprocal fact that only about 50% of SSI beneficiaries are also on Social Security. This low percentage correspondence also affects the Food Stamp interaction. Approximately 12% of Social Security beneficiaries are eligible, 8% apply-receive, and only 3% are on Social Security-Food Stamps alone (as opposed to some combination with SSI and AFDC). Reductions in Social Security benefit levels within this 3% would be offset by approximately 20% increases in Food Stamp allocations. For the 5% of Social Security participants also on Food Stamps, AFDC and/or SSI, any changes in Social Security benefits will be entirely made up by the cash transfer programs (SSI, AFDC), and Food Stamp allocation will be unchanged.[24]

Interactions with the Housing Assistance programs would affect only 5% of the Social Security beneficiaries. The ones not also on SSI/AFDC would receive compensatory rent/housing payment decreases with reduction in income from Social Security benefits, and the ones on SSI/AFDC would have those programs affect any cash reductions resulting from Social Security benefits decreases.[25]

This interactive relationship is similar to that of the approximately 12% of the unemployed insurance recipients who also participate in the Food Stamp program, and the 10% participating in the free/reduced lunch program. Only 9% of those Food Stamps-UI beneficiaries (9% of the 12%) would have reduced UI benefits offset by an increased Food Stamps allocation. The other 3% are Food Stamps-SSI-AFDC combinations and reduced UI benefits would be compensated for by increased cash assistance from SSI or AFDC.[26] (See Table III-5).

Unemployment insurance benefits also interact with the school lunch program, but to a very small degree. Only about 1/10 of the UI recipients are also participants in the lunch program. Shifts in UI benefit levels would only affect those school lunch beneficiaries close to the income cutoff threshold (130% for free lunches, 185% of the poverty line for reduced price lunches), and the price category for school lunches is set at the beginning of the school year, only haphazardly matching UI benefit periods.[27]

Interaction and Government Spending

The CBO report mentioned above analyzed the overall effect of interactions on the federal budget by using three measures: a hypothetical 20% spending cut in AFDC, Social Security, and Unemployment Insurance by an across-the-board cut and an eligibility restriction. The results were varied, showing offsetting program increases which significantly altered the intent of the 20% cut (reducing it to a 9% cut in effect) and other interactions which made no alterations at all of that intent. Moreover, there was considerable variation between federal and state spendings/savings reductions based on the 20% cut intended: states received reduced savings in some instances and significant spending increases in others; the federal government did likewise.[28]

TABLE III-5: PERCENT OF HOUSEHOLDS RECEIVING UNEMPLOYMENT INSURANCE THAT PARTICIPATE IN PROGRAMS THAT INTERACT WITH UNEMPLOYMENT INSURANCE

Programs that Interact with Unemployment Insurance and Patterns of Benefits	Percent of Unemployment Insurance Households Receiving Benefits from Other Programs[a]
Food Stamps	
Unemployment Insurance and Food Stamps only or with programs other than SSI and AFDC	9
Unemployment Insurance, Food Stamps, either SSI or AFDC, and possibly other programs	1-3
TOTAL Food Stamps	10-12
Free or Reduced-Price School Lunch[b]	10

SOURCES: CBO estimates from March 1981 Current Population Survey (CPS) and program data. See <u>Interactions</u>, op. cit., pp. 12-13.

a. Percentages cannot be added, but must be considered separately.

b. One or more children in the household regularly eat a free or reduced-price school lunch subsidized by the National School Lunch Program.

The across-the-board cut in AFDC benefits triggered the largest amount of offsetting increases in interacted programs, thus insulating AFDC recipients from an income reduction. Instead of the 20% cut intended in government spending, CBO estimated the combined effect on federal-state-local government at 14% reduced spending, with state and local government getting the full 20% in spending savings, and the federal government only 9% in reduced outlays.[29] This is because of the way program costs are shared by the different units of government. The federal government, for instance, is responsible for the full costs of Food Stamps and Housing Assistance, the major offsetting programs for AFDC. 55% of each dollar cut from AFDC would be compensated for by an increased federal spending elsewhere. (See Table III-6.) Food Stamp offsets would be approximately 24% of each dollar cut from AFDC, with housing assistance accounting for 6% in reduced rent/housing fees. Medicaid and the school lunch program benefits would not be affected at all. There would be little or no interactive results due to the non-correlation between the level of AFDC and Medicaid benefits (although all AFDC eligibles are categorically eligible for Medicaid) and the low-income circumstances of the school lunch program.[30] In fact, the across-the-board cut in Social Security, AFDC and UI benefits in general did not cause any significant interactions in the programs using categorical eligibility (Medicaid, Medicare) for one program as the criteria for benefits eligibility for the other.

In addition, although the needs-based (i.e., means-tested) programs (e.g., AFDC, Food Stamps) generally showed interactive results, not all of them did (e.g., school lunch), and virtually none of the nonmeans-tested

TABLE III-6

ESTIMATED BUDGETARY EFFECTS OF 20 PERCENT REDUCTION IN AFDC[a] BENEFITS IN FISCAL YEAR 1983, BY INTERACTING PROGRAM

Interacting Program	Increase in Interacting Program's Outlays (In Percents)	Offset to Each Dollar Cut in AFDC (In Cents)	Net cut as Percent of Previous AFDC Outlays, Including Offsets
Medicaid	0	0	20
Food Stamps	6	24	15
Free or Reduced-Price Lunch[b]	0	0	20
Housing Assistance Programs[c]	2	6	19
Overall Effects, All Levels of Government[d]		30	14
Effect on federal budget		55	9
Effect on state and local budgets		0[e]	20

SOURCE: CBO estimates in Interactions, op. cit., p. 18.

a. Aid to Families with Dependent Children

b. National School Lunch Program providing free or reduced-price school lunch.

c. Household lives in public housing or pays reduced rent subsidized by housing assistance programs.

d. The effects on different levels of government are not additive, but must be computed separately.

e. Since the federal government pays for food stamps and housing assistance, increased outlays for these programs would not affect state and local budgets.

(social insurance) programs demonstrated any percentage-significant interaction/program offsets. Social Security recipients, for instance, most of whom do not participate much in other programs (only 16% do), would receive program offsets that are, percentage-wise, quite small.[31] A 20% across-the-board cut in Social Security would, when adjusted for offsets in SSI benefits (approximately 6% of every dollar cut), Food Stamps and housing assistance (17% of each dollar per program), result in an 18% cut in government spending for Social Security (See Table III-7).[32] It would also increase spending for SSI by approximately 20%, for Food Stamps by approximately 2%, and 3% for housing assistance.[33] State spending, since the states pay part of SSI costs, would increase 20% for that program.

For UI, a 20% across-the-board cut would not be significantly offset, since there are very few UI beneficiaries participating in other income transfer programs. The principal compensatory offset would be Food Stamps, which would increase its outlays by only 1%, each UI dollar decrease being met by an average 32 cents in increased Food Stamps for the 6-9% of UI beneficiaries also participating in the Food Stamp program. The other 91-94% of UI recipients would receive the full 20% benefits reduction.[34] (See Table III-8 .)

The 20% eligibility restriction (lowering the income limit for AFDC, and raising the Social Security retirement ages for full and early benefits, or increasing the UI waiting period from 2 weeks to 3 or 4, etc.) would cause means-tested and nonmeans-tested program interactions. For Food Stamp recipients, for instance, loss of companion AFDC, Social Security or other such benefits acts only as another income reduction, leading to

TABLE III-7: ESTIMATED BUDGETARY EFFECTS OF 20 PERCENT REDUCTION IN SOCIAL SECURITY[a] BENEFITS IN FISCAL YEAR 1983, BY INTERACTING PROGRAM

Interacting Program	Increase in Interacting Program's Outlays (In Percents)	Offset to Each Dollar Cut in Social Security (In Cents)	Net Cut as Percent of Previous Social Security Outlays, Including Offsets
Medicare	0	0	20
Medicaid	0	0	20
Supplemental Security Income (SSI)	20	6	19
Food Stamps	2	1	20[b]
Housing Assistance Programs[c]	3	1	20[b]
Overall Effects, All Levels of Government[d]		8	18
Effect on federal budget		7	19
Effect on state and local budgets		e	e

SOURCE: CBO estimates, See Interactions, op. cit., p. 20.

a. The term Social Security is used here to include both Old Age, Survivors, and Disability Insurance (OASDI) and Railroad Retirement Programs.

b. The Offsets are small enough that the net cut rounds to 20 percent.

c. Household lives in public housing or pays reduced rent subsidized by housing assistance programs.

d. The effects on different levels of government are not additive, but must be computed separately.

e. State spending would increase, not decrease. State SSI benefit costs would rise by about 0.3 percent of the amount of Social Security outlays saved, but states would not receive any of the savings in Social Security costs.

TABLE III-8: ESTIMATED BUDGETARY EFFECTS OF 20 PERCENT REDUCTION IN UNEMPLOYMENT INSURANCE IN FISCAL YEAR 1983, BY INTERACTING PROGRAM

Interacting Program	Increase in Interacting Program's Outlays (In Percents)	Offset to Each Dollar cut in Unemployment Insurance (In Cents)	Net Cut as Percent of Previous Unemployment Insurance Outlays, Including Offsets
Food Stamps	1	3	19
Free or Reduced-Price Lunch[a]	0	0	20
Overall Effects, All Levels of Government[b]		3	19
Effect on federal budget		3	19
Effect on state and local budgets		0	0

SOURCE: CBO estimates. See Interactions, op. cit., p. 26.

a. National School Lunch Program providing free or reduced-price school lunch.

b. The effects on different levels of government are not additive, but must be considered separately.

increased Food Stamp benefits. But for the categorical eligibility programs, loss of participation in one program also means loss of participation in the second, thus producing double government spending savings.

For AFDC, an eligibility restriction would cause this double elimination, resulting in approximately 22% reductions (combined federal, state, local) from the original 20%. Reductions in the companion Medicaid program would be larger than the Food Stamps and housing assistance offsets, producing the larger 22% reduction. In the states alone, that figure would rise to 23%, and they would not be responsible for any of the offset increases in Food Stamps and housing assistance.[35]

For Social Security eligibility, interactions with Medicare, SSI and Medicaid--the former causing additional reductions, the latter two causing additional spending--would produce a 19% reduction from the original 20%. The federal government would gain from the double reduction of Medicare and Social Security, but also pay most of the increased Medicaid-SSI spending, while states would not gain anything from the lowered Social Security-Medicare benefits, but would still have to pay part of the increased SSI-Medicaid tax. SSI spending would increase by 20%, Medicaid by 1%, Food Stamps by 2%, housing assistance by 3%, and Medicare spending reduced by 4%. (See Table III-9.)[36]

For UI, only Food Stamps would significantly interact with a 20% eligibility reduction, due again to the small participation of UI recipients in other income transfer programs. Federal Food Stamps

TABLE III-9: BUDGETARY EFFECTS OF CHANGING ELIGIBILITY REQUIREMENTS TO ACHIEVE A 20 PERCENT REDUCTION IN SOCIAL SECURITY[a] OUTLAYS IN FISCAL YEAR 1983, BY INTERACTING PROGRAM

Interacting Program	Increase in Interacting Program's Outlays (In Percents)	Offset to Each Dollar Cut in Social Security (In Cents)	Net Cut as Percent of Previous Social Security Outlays, Including Offsets
Medicare	-4	-7	21
Medicaid	1	1	20[b]
Supplemental Security Income (SSI)	20	6	19
Food Stamps	2	1	20[b]
Housing Assistance Programs[c]	3	1	20[b]
Overall Effects, All Levels of Government[d]		2	19
Effect on federal budget		1	20[b]
Effect on state and local budgets		1	e

SOURCE: CBO estimates. See Interactions, op. cit., p. 28.

a. The term Social Security is used here to include both Old Age, Survivors, and Disability Insurance (OASDI) and Railroad Retirement Programs.

b. The offsets are small enough that the net cut rounds to 20 percent.

c. Household lives in public housing or pays reduced rent subsidized by housing assistance programs.

d. The effects on different levels of government are not additive, but must be computed separately.

e. State spending would increase for Medicaid and SSI, but states would not obtain any of the savings in Social Security.

outlays would increase 3% for every dollar of UI reduction from eligibility restrictions, with state expenditures not affected either way.[37] (See Table III-10.)

In summary, attempting to control entitlement programs primarily through cuts in program funding authorizations and outlays is not a simple affair. There are few, if any, 'pure' cuts because of the interconnectedness of both means-tested and trust-fund based programs. Because of program interaction, intervening factors will continue to make it extremely difficult to predict with any accuracy the full effect of any single funding cut in entitlement programs. Additionally, while indexation may be the most politically difficult of the three structural components to control, program interaction is the most complicated and amorphous. It will continue to frustrate attempts to control entitlement spending through decreases in spending authority and program outlays alone.

Number of Beneficiaries

Not much needs be said about this persistent problem. Several of the entitlement programs, particularly Social Security, Unemployment Insurance, AFDC, Medicare, Medicaid, Supplementary Security Income, farm price supports, etc., are particularly sensitive to the prevailing state of the economy over which Congress has little control. The number of program beneficiaries swells and decreases with depressed economic conditions and boom times. The great expansion in the unemployment ranks was primarily responsible for a 15% increase in entitlement expenditures between 1980-82, for example.[38] And given the fact of program interaction and the great probability of continued high unemployment through at least 1985, holding

TABLE III-10: ESTIMATED BUDGETARY EFFECTS OF CHANGING ELIGIBILITY REQUIREMENTS TO ACHIEVE A 20 PERCENT REDUCTION IN UNEMPLOYMENT INSURANCE OUTLAYS IN FISCAL YEAR 1983, BY INTERACTING PROGRAM

Interacting Program	Increase in Interacting Program's Outlays (In Percents)	Offset to Each Dollar Cut in Unemployment Insurance (In Cents)	Net Cut as Percent of Previous Unemployment Insurance Outlays, Including Offsets
Food Stamps	1	3	19
Free/Reduced-Price Lunch[a]	0	0	20[b]
Overall Effects, All Levels of Government[c]		3	19
Effect on federal budget		3	19
Effect on state and local budgets		0	0

SOURCE: CBO estimates. See Interactions, op. cit., p. 32.

a. National School Lunch Program providing free or reduced-price school lunch.

b. The offsets are small enough that the net cut rounds to 20 percent.

c. The effects on different levels of government are not additive, but must be computed separately.

entitlement expenditures down will be virtually impossible without additional eligibility and benefit level changes, similar to those in the 1981 Omnibus Reconciliation Act. Such rules changes, however, cannot be continually resorted to without fundamentally altering the aims, intents and purposes of the programs themselves.[39]

The number of program clients will also increase naturally as the population grows older; as more of the "temporary unemployed" become permanent due to the decline in manufacturing/industrial jobs and other social-economic changes; and as the population itself continues to expand. As is the case with indexation and program interaction, and possibly more so in this instance, the pressure of this structural problem of entitlements will not just go away, and will consistently impact entitlement outlays.

CHAPTER IV CAN CONGRESS CONTROL ENTITLEMENTS WITHIN THE BUDGETARY PROCESS? -- THE POTENTIAL OF RECONCILIATION

As defined in the introduction, congressional "control" of entitlements in this thesis means Congress having the ability, under current law and the structure of the budgetary process, to enact effective constraints on the growth of federal spending for entitlement programs. In this and the following chapter, the question of whether Congress indeed has that capacity, or has the immediate probability of acquiring it, is explored.

During the initial years of the budget process, congressional attempts at constraining the growth of entitlement spending were mainly confined to Budget Committee assumptions of legislative savings as part of budget resolutions. However, this seldom if ever worked, since there was no real incentive for Congress to enact those assumed savings, and much interest group pressure and other motivations for it not to, and consequently, it very rarely did.[1] Currently, there are only two viable options available for Congress to have control over entitlement spending. The first option is a distinctive component of the budgetary process itself and is the subject of this chapter: reconciliation. The second option has been repeatedly mentioned throughout this thesis: structural changes in the nature of entitlements within the budgetary process (i.e., indexation, program interaction and number of beneficiaries, etc.).

Ellwood,[2] Schick,[3] Pechman[4] and Ippolito,[5] four contemporary analysts of the budgetary process, all view reconciliation as the principal weapon Congress currently possesses to control entitlement spending. What is this reconciliation procedure and what are its strengths and limitations relative to controlling entitlements?

Reconciliation as a combined series of legislative activities inherently tied to established legislative habits, procedural rules, standards and jurisdictions, was originally created by Section 310 of the 1974 Budget and Impoundment Act.[6] It is a legislative process itself part of the broader budgetary process, and is, according to the Budget Act, associated with and follows the second concurrent budget resolution mandated for enactment no later than Spetember 15th every year. Under the terms of the Budget Act, reconciliation technically has two stages: a set of reconciliation instructions which is included in the second budget resolution, and a reconciliation bill which summarizes the congressional implementation of those instructions. Both stages must go through the regular steps of congressional approval.[7]

More specifically, Section 310 authorizes, within both the Senate and the House, each congressional Budget Committee to produce a proposed second concurrent budget resolution which consists of the specific spending ceilings and revenue floors for both budget authority,[8] and spending authority,[9] plus recommended changes in revenue laws, a current accounting of the public debt, and the set of instructions directing congressional committees to report new legislation designed to accomplish outlays within such ceilings and floors. Those instructions specify that committees can recommend changes in the amount of new and old (prior years') budget authority, and new spending authority.[10]

After congressional approval of this resolution and the instructions, Section 310 mandates that the Budget Committees receive, compile and summarize the reports and recommendations from the other relevant congressional committees pursuant to those instructions, and without substantively revising them, compose these reports and recommendations into either a reconciliation bill or reconciliation resolution. This reconciliation proposal is then mandated for submission to the full Congress, to be approved, including conference adjustments, by no later than September 25th, and Congress is ordered not to adjourn until such reconciliation activity is completed, once it has been initiated.[11]

Based on the Budget Act, the proposed reconciliation document's primary purpose is to bring existing laws into conformity with current budget policies by resolving the differences in the legislative budget decisions made during the period between the first budget resolution's spending-revenue targets and the second's specific ceilings and floors. Reconciliation, according to the Act, was primarily aimed at reconciling new and prior year budget authority (appropriations) and new entitlements (spending authority) with the budget limitations of the second resolution. Reconciliation, as mandated in the Budget Act, focuses on reconciling laws and congressional budget policy, not program modifications per se.[12]

In the years since the passage of the Budget Act, particularly since 1980, the year that Congress first implemented the reconciliation process into its budgetary decisions, there have been several very significant adaptations in how reconciliation works within the budgetary process.

(1). Reconciliation instructions have been "permanently" shifted from the second resolution to being included in the first resolution. This has been the regular procedure since the fiscal 1981 budget formulation.[13]

(2). Reconciliation now focuses regularly on changing legislation providing prior budget authority, rather than just existing law. It is primarily focussed on laws, not programs. New appropriations are now generally ignored by reconciliation, and instead past appropriations authority and already existing entitlements are the focus.[14]

(3). According to the language of the Budget Act, neither reconciliation nor any of the budget resolutions were to cover the revision of conventional authorizing legislation. Since such legislation was still under the purview of the Appropriations Committees, it was not originally deemed to be a problem. However, reconciliation instructions now regularly direct committees to recommend changes in non-entitlement authorizing legislation, since some of it basically determines the level of some outlays when it sets up eligibility and payment requirements for programs. Food Stamps and disaster assistance are examples.[15]

(4). The Budget Act perceived congressional budgeting as an annual process only. Currently, for both practical and political reasons, reconciliation is seen and used as a multiyear process, with each budget resolution setting revenue and spending goals for the coming fiscal year, plus the next two fiscal or outyears. The outyear goals are non-binding targets only.[16]

Advantages and Disadvantages of Reconciliation as a Control for Entitlements

Major advantages of the current reconciliation process as it affects entitlements include:

(a). The shift to the start of the budget process enables the Budget Committees to literally force the review of existing entitlements by reporting a reconciliation instruction to change previous laws mandating entitlement programs.[17]

(b). The fact that reconciliation can be used to require authorizing committees to lower authorization of appropriation limits for entitlements and other programs provides an effective tool for those interests seeking to limit entitlement spending.[18]

(c). The fact that the reconciliation process causes a significant shift in the traditional congressional bias towards more spending for programs by focusing the congressional debates onto issues that affect revenue-spending totals--the whole budget--rather than individual programmatic concerns.[19]

The major disadvantages of the current reconciliation process as it affects entitlements include:

(a). The fact that the reconciliation process increases budgetary uncertainty by motivating heightened legislative conflict amid a large number of congressional activities. In the 1980 reconciliation process at least 20 congressional committees were involved, and in 1981, 30. Because there are so many legislative activities requiring manipulation and organization in the reconciliation process, it can rather easily be blockrd, stalled or substantially slowed down at any number of points. Additionally, entitlement programs previously established as relatively permanent guarantees of continually expanded funding and benefits have lost some of that stability, forcing their interest groups and congressional supporters to fight harder to defend them.[20]

(b). The fact that the reconciliation process depends primarily on changing prior authorizations and rules of eligibility for entitlement programs for its effect on them means that the process is inherently limited in how many times such amending, revising and alterations of entitlement laws can be accomplished without substantially changing the nature, intent, goals and purposes of the entitlements.

(c). The fact that much of the budget remains heavily dependent on and influenced by the prevailing state of the economy and the demographic vagaries of our current society. Federal receipts and obligations remain tied to automatic responses to high unemployment, growth in the incidence of poverty, the numbers of elderly, indexation of cost of living adjustments, other beneficiary characteristics, inflation, etc. Thus reconciliation alone cannot ensure a decline in the levels of government spending in general, or for entitlements in particular. The process will have to be accompanied by structural changes in indexing, program interaction and other budgetary elements in order to evolve from a potentially consistent vehicle for controlling entitlement growth to an actual one.

The next section examines the budgetary outcomes for entitlements through the reconciliation process since 1980. The economic assumptions used as the basis of the estimated savings are shown in Table IV-1 .

Reconciliation and Entitlements: 1980 - 1983 Outcomes

1980

The 1980 Omnibus Reconciliation Act has been called, "the first coherent effort any Congress has made to bring this so-called 'uncontrollable' spending under control."[21] The first budget resolution to which it was attached had called for \$10.6 billion in savings, and although it officially resulted in \$8.28 billion — \$4.6 billion in outlays and \$3.645 in new revenues — much of which was either temporary, predominantly paper cuts or both, the effort was judged a very successful precedent. It utilized the devices of tightening some entitlement eligibility rules (e.g., the school lunch program), reducing farm support subsidies, tightening extended unemployment benefits, postponing and/or limiting Medicare and Medicaid hospital payments, shifting programs to off-budget status and reducing interest subsidies and COLAs, among other things.[22] Its final version, passed December 3, 1980 (two months after the fiscal year had begun), included the following results relative to entitlements.

(1). It authorized extended funding for two child nutrition programs-- one of them, the supplemental feeding program for women, infants and children until 1984-- based on amendments which were part of neither the House nor Senate reconciliation bills, but were added during the congressional conference period. This authorization could have been overturned on a point of order but no one officially challenged it for fear of upsetting the delicate balanced achieved. In effect, it legislated an action already pending in a bill due to go to the appropriations committee, making the latter moot.[23]

(2). Authorized $840 million in budget authority savings and $826 million in outlays by lowering subsidies for some other child nutrition programs, reducing the number of non-lower income eligibles for school lunch programs, tightening collection procedures and increasing student loan interest rates, and limiting COLAs for Federal Employees Compensation Act benefits to once a year rather than twice.

(3). Authorized $429 million in budget authority savings and $463 million in outlays by repealing double-dipping COLAs by retiring federal employees, but maintained twice-a-year regular COLAs for military and federal retirees.

(4). Authorized $12 million in budget authority savings and $915 million in outlays by deferring the periodic interim

TABLE IV-1: COMBINED ECONOMIC ASSUMPTIONS OF THE REAGAN ADMINISTRATION AND THE CONGRESSIONAL BUDGET OFFICE, CALENDER YEARS 1981-85

Economic indicator	1981	Projected 1982	1983	1984	1985
		Percent change, year to year			
GNP in current dollars					
Reagan administration	11.3	8.1	11.5	10.2	9.7
Congressional Budget Office	11.3	7.5	11.9	10.4	9.7
GNP in constant 1972 dollars					
Reagan administration	2.0	0.2	5.2	5.0	4.7
Congressional Budget Office	2.0	−0.1	4.4	3.6	3.5
GNP deflator					
Reagan administration	9.1	7.9	6.0	5.0	4.7
Congressional Budget Office	9.1	7.5	7.3	6.6	6.0
Consumer price index					
Reagan administration	10.3	7.3	6.0	4.6	4.8
Congressional Budget Office	10.3	7.5	6.9	6.9	6.4
		Percent, annual average			
Unemployment rate					
Reagan administration	7.6	8.9	7.9	7.1	6.4
Congressional Budget Office	7.6	8.9	8.0	7.4	7.2
Treasury bill rate					
Reagan administration	14.1	11.7	10.5	9.5	8.5
Congressional Budget Office	14.1	12.0	13.2	11.3	9.4

Source: *Budget of the United States Government, Fiscal Year 1983*, pp. 2-5, 2-7; and Congressional Budget Office, *The Prospects for Economic Recovery*, report to the Senate and House Committees on the Budget, part 1 (Government Printing Office, 1982), p. xviii.

Cited in, J.A. Pechman, ed., Setting National Priorities: The 1983 Budget (Brookings: Washington, D.C.), p. 40.

payments made to hospitals to once in September, and altering the Medicare reimbursement schedule to recognize costs-per-service-performed rather than costs-per-claim-processed. At the same time, increased spending was authorized for health program expansions for home services, outpatient rehab care and physical therapy.

(5). Authorized $32 million in budget authority savings and $147 million in outlays through rescinding the government payment to the states in reimbursement for unemployment aid to laid-off CETA workers; terminating government reimbursement procedures for at least the first week of extended benefits in states not requiring applicants to wait until after week one to receive benefits, and tightening eligibility requirements for extended unemployment compensation.

(6). Authorized $117 million in budget authority savings and $270 million in outlays by restricting retroactive Social Security benefits to no more than 6 months prior to eligibility application; and by repealing Social Security disability eligibility for convicted felons; postponing implementation of new rules for day care centers; enacting the 1980 Social Security Disability Amendments; and transferring trust funds from the disability category to the old age and survivors' categories within the OASDI trust fund.

Overall what the 1980 Reconciliation Act did was to establish the congressional precedent for effectively using the process to shape and mold relative control of entitlement expenditure increases. It did not definitely establish the full range and scope of the process' potential viz-a-viz entitlements, but it did show the process' promise as an invaluable tool, along with some of its limitations.

1981

The 1981 Omnibus Reconciliation Act provided a very ambitious precedent for the scope of the reconciliation process. It included revisions for at least 250 federal programs and 232 program accounts.[24] It also provided a more definitive exposition of the capacity of the reconciliation process, in executive branch and congressional hands, to cope better with entitlement spending. It again demonstrated the multidimensionality of the difficulty of holding down federal entitlement expeditures: in spite of presidential and some congressional rhetoric to the contrary, entitlement spending for fiscal 1982 and 1983 (estimated) still increased by double digit percentage points over fiscal 1981.[25] Indexation, program interaction and the numbers of eligibles had a great deal to do with those uncontrolled increases.[26]

The 1981 Reconciliation Act was passed on July 31. It was part of a broader process that year to hold down not just government spending but to cut and reduce expenditures substantially. The three-pronged attack utilized by Congress to accomplish this feat included rescission of prior appropriations, reconciliation, and appropriations reductions. For conventional authorizations and indexed appropriations (e.g. Food Stamps, etc.) minimum cut savings were achieved in the first stage by amending the authorization of appropriations limits for targeted programs previously budgeted (rescission), and in the second stage, deeper cuts were made by the appropriations committees' granting of budget authority even further below the amended authorization of appropriations limits.[27]

Approximately 40% of the budget authority reduction and 39% of the outlay savings contained in the Act were achieved through amending entitlement authorizations of income assistance programs so that eligibility rules and benefit formulas were substantially modified. These were actual and permanent cuts. Appropriated entitlements had both their original authorizations amended, and appropriations committee reduction of their budget authority.[28] Relative to entitlements, the 1981 Reconciliation Act included the following.

1). It authorized the amendment of the Higher Education Act to affect eligibility criteria for the Guaranteed Student Loan program so that $30,000 is a relative income barrier beyond which students may be deemed ineligible. In addition, reconciliation raised interest rates in the parent loan subsidiary to the GSL, established a loan origination fee of 5% which was to be paid by each student borrower, reduced the special allowance payment to lenders, and revised some regulations for the Student Loan Marketing Association. Overall, some $479 million in budget authority savings were claimed for fiscal 1982, $844 million for 1983, and $1,353 million for fiscal 1984.[29]

2). It authorized that the Title XX Social Services program be merged with two smaller Title XX programs. It also allowed $2.4 billion dollars for fiscal 1982 (a 23% cut of $698.7 million), $2.45

billion for 1983 (with a 24% cut in budget authority), and 2.5 billion for fiscal 1984 (with a 25% cut of $811.5 million). Some administrative requirements were dropped and eligibility rules were broadened (e.g., the requirement that 50% of funds be used for welfare recipients was repealed). Otherwise the major effect of reconciliation on this state entitlement was to give states complete control over the programs, and with no state matching fund requirement.[30]

3). Authorized increased state discretion over hospital reimbursements for Medicaid, and other operations within the program, thereby reducing the federal responsibility for Medicaid program activity. The Act also extended Medicaid coverage to home and community facilities, authorized the states to define their own medical needy, and revised several administrative provisions. There was a restriction of AFDC client categorical eligibility and a reduction in federal matching requirements. The net effect of all this was to reduce federal Medicaid expenditures by an estimated 5% each year from fiscal 1982-84.[31]

4). For Medicare, the Act increased the deductible beneficiaries are required to pay for Medicare universal hospital insurance, authorized a reduction in reimbursement rates for hospital and home health care, and rescinded medicare coverage payments for new procedures which had not yet been implemented. For the supplementary medical insurance portion of Medicare, the deductible was increased and carryover deductibles from one year to the next were prohibited. Together, these changes are estimated to have reduced Medicare expenditures by $491 million for fiscal 1982, or 3% from what they would have been, according to CBO current policy baseline estimates. Medicare costs had risen by over 45% just between 1979-81, and cutting them remains a Reagan priority.[32]

5). It authorized restricted eligibility and reduced benefits for the Trade Assistance Adjustment program, and introduced regulations seeking to redirect the program's emphasis on cash assistance to funding for employment searches and relocation. These changes caused an 85% reduction for fiscal 1982, with 82% scheduled for 1983 if the program is not completely eliminated as the Reagan proposal has requested.[33]

6). It authorized restricted eligibility for unemployment compensation extended benefits and charged higher interest rates for federal loans to states in an effort to discourage bailout activity. The effort achieved only minimal and temporary savings, however, reducing expenditures by 1% in 1981, 4% for 1982, and 1% estimated in 1983-84.[34]

7). It authorized large budget authority reductions in the Special Milk program by reducing the eligibility of participating institutions (especially private schools) for subsidies, restricting the income criteria for individual eligibility, and eliminating the overlap with the national lunch, breakfast, commodity-only and child care food programs. Estimated reductions were $100 million a year; a 75% reduction. The program has been being reduced since 1978, and is proposed for elimination in fiscal 1983.[35]

8). It authorized very large reductions in the child nutrition programs, amounting to $1.4 billion in fiscal 1982, $1.5 billion in 1983, and $1.6 billion in 1984. These were achieved by restricting eligibility for free and reduced-price lunches and lowering overall meal subsidies. In the school lunch program, for example, the free meal subsidy was reduced by 3%, reduced-price lunches by 23% and full-price lunches by 34%.[36]

9). For Supplemental Security Income, the Reconciliation Act authorized only small eligibility-restriction reductions, including the elimination of the Social Security minimum benefit category, which has since been reversed.[37]

10). For AFDC, the Act authorized increased work requirements for beneficiaries, tightened the rules for counting earnings by AFDC recipients, altered the formulas for calculating income, restricted categorical eligibility provisions, streamlined program administration and decreased administrative costs. The estimated savings was $1.1 billion, with approximately 18% of AFDC families and 19% of the children losing eligibility for the program.[38]

What was the general effect of the reductions in entitlements? There was a $11.3 billion cut in fiscal '82 entitlement outlays, and $37.2 billion estimated over three years. But these were the relatively "easy" cuts that will not soon be repeated or matched. For reconciliation to really make a significant impact on the entitlement problem, more of the 1981 activity would have to be re-done continually and consistently, and in all probability, that will not happen in the foreseeable future. For example, for fiscal 1982-83, the Reagan administration requested such additional cuts, but Congress rejected them. This kind of effort to gain control of entitlements through annual program alterations and adjustments is expected to generate increasing political opposition almost inevitably, and should not be relied upon as the major strategy for gaining control of entitlement spending.[39]

<u>1982</u>

The fiscal 1983 Reconciliation Act was far less sweeping than the previous year's and affected entitlement benefits and eligibility only slightly. It revised COLAS for government retirees, reduced farm program supports, slightly modified veterans' benefits, Medicare and Medicaid, and further restricted AFDC, SSI and UI benefits. The estimated cuts for each year of the multiyear 1983-85 period were $4.1 billion for the cost-of-living adjustments, $4.2 billion in farm subsidies, $552 million from veterans' programs, $13.3 billion for Medicare, $1.14 billion for Medicaid, $343 million for AFDC, $386 million for SSI, and $17 million for UI.[40]

1). The Act authorized a new .5% user fee on VA-supported home loans, a delay in some compensation and veterans' benefits, a rounding off of benefit checks to the next lowest rather than next highest dollar, and a change in the date for new benefit reductions coming from a transition in dependency status.[41]

2). Authorized, for the first time, a significant 50% reduction in COLAS for younger federal retirees (under 62 years old), delayed by one month the effective date of COLAS (from March 1 to April 1, 1983, May, 1984, and June, 1985), and eliminated double-dipping by military retirees who take other federal civilian jobs. Additionally, the Act authorized rounding benefit payments to their lowest dollar, delaying the date of payment of a retiree's first check, modifying other disability and early retirement regulations and adjusting the computation of military service into civil service retirement benefits.[42]

3). It authorized a multiyear reduction in the wheat, feed grain and rice programs estimated at $274 million dollars by requiring new payments to farmers for not growing them; and it authorized a cut in the support of dairy prices unless production was reduced.[43]

4). For Medicare, the savings authorized were from establishing new limits on hospital reimbursement rates and the dates for federal payments. For Medicaid, the anticipated savings were from modifying certain provisions allowed to state discretion (e.g. permitted states to charge nominal fees to certain Medicaid patients, etc.).[44]

The estimated savings for Medicare, Medicaid, AFDC, Supplemental Security Income and Unemployment Insurance, were all included in the 1982 Tax Equity and Fiscal Responsibility Act. This document was the response of the House Ways and Means Committee, and the Senate Finance Committee, to their fiscal 1983 reconciliation instructions. These two committees have jurisdiction over most of the entitlement programs in the budget. Although passed in a seemingly separate legislative activity, the Tax Equity Act was just another part of the reconciliation process for fiscal 1983.[45]

5). The Reconciliation Act authorized first month prorating of AFDC benefits based on the date of application, a rounding off of benefits to the lowest dollar, an exclusion of families of absent military fathers from AFDC eligibility, a permission for states to require participants to look for work, and a requirement that the income of unrelated adults living with AFDC beneficiaries be added into the calculations for benefits.[46]

6). For SSI, the same proration and rounding off of provisions as in AFDC were authorized, along with a one-month benefit reduction associated with a COLA for Social Security payments, and an exclusion of burial spaces as countable assets. For UI, jobless benefits were extended, increasing outlays rather than reducing spending, rounding off of benefits to the lowest dollar was permitted, students enrolled in a fulltime work-study or internship program were exempted from FUTA taxes, and permission was granted to deny UI compensation to certain non-teaching, non-research or non-administrative staff of colleges and universities.[47]

Were Entitlements "Controlled" Through the Reconciliation Process, 1980-83?

Table IV-2 shows that for each year the Reconciliation Act was enacted as a part of the budgetary process, overall entitlement spending still increased significantly, as did the percentage of entitlement spending in the budget. What can be said of the overall effect of the reconciliation process reductions in entitlement spending for the 1980-83 period is that the growth rates for the "other" entitlement categories (the means-tested programs most deeply affected by the 1980-83 budget cuts) seem to have been abated somewhat for the near future. However, this statement does not apply to either Unemployment Insurance outlays, SSI or Food Stamp outlays, all of whose growth rates increased between 1 and 9 billion/year from 1980-83. See Table IV-3.

Additionally, nothing accomplished through reconciliation 1980-83 significantly affected either Social Security outlays or Medicare/ Medicaid expenditures. Thus far, all three remain impervious to budgetary restraints.

Has reconciliation thus far resulted in increased congressional control over entitlement spending in the budget? For certain programs, like child nutrition, guaranteed student loans and AFDC, the answer is at best mixed. For the majority of entitlement programs, particularly the gigantic Social Security and health programs, the answer is decidedly no. Again, there are structural factors of entitlements which, unless fundamentally changed (as opposed to cosmetic, haphazard modifications), will consistently foil even the best intended congressional attempts at controlling entitlement spending, even given the immense potential of the reconciliation process.

TABLE IV-2: COMPOSITION OF FEDERAL SPENDING, 1980-1988

Category	1980	1982	1983	1984	1988
	As a Percent of GNP				
National Defense	5.3	6.2	6.7	6.9	7.5
Entitlements and Other Mandatory Spending					
Social Security benefits	4.5	5.0	5.3	5.1	4.9
Medicare and Medicaid	1.9	2.2	2.4	2.4	3.0
Farm price supports	0.1	0.4	0.6	0.3	0.1
Other entitlements	4.0	3.7	3.9	3.4	2.7
Subtotal	10.5	11.4	12.1	11.2	10.7
Nondefense Discretionary Spending	5.5	4.6	4.5	4.4	3.8
Net Interest	2.0	2.8	2.7	2.7	2.8
Offsetting Receipts	-0.8	-0.9	-1.0	-1.0	-0.9
Total	22.5	24.0	25.0	24.3	23.9
	As a Percent of Total Outlays				
National Defense	23.6	25.7	26.7	28.5	31.3
Entitlements and Other Mandatory Spending					
Social Security benefits	20.1	21.0	21.0	21.1	20.3
Medicare and Medicaid	8.4	9.2	9.5	10.1	12.4
Farm price supports	0.5	1.6	2.2	1.1	0.4
Other entitlements	17.6	15.5	15.6	14.0	11.5
Subtotal	46.6	47.1	48.2	46.3	44.6
Nondefense Discretionary Spending	24.5	19.1	18.2	18.0	16.1
Net Interest	9.1	11.6	10.9	11.2	11.7
Offsetting Receipts	-3.7	-3.7	-4.0	-4.0	-3.6
Total	100.0	100.0	100.0	100.0	100.0

SOURCE: CBO, Deficits, 1983, op. cit., p. 12.

TABLE IV-3: FEDERAL OUTLAYS FOR "OTHER ENTITLEMENT" PROGRAMS **
(In billions of dollars)

Major Program	Actual 1980	1982	Estimated 1983	Baseline Projection 1984	1985	1986	1987	1988
Benefits for Individuals								
Non-Means-Tested Programs								
Unemployment Insurance	16.4	24.3	33.0	27.8	26.5	26.1	25.9	25.6
Trade Adjustment Assistance	1.7	0.1	0.1	0.1	a/	a/	a/	a/
Veterans' Compensation	7.4	9.3	9.9	10.2	10.6	10.9	11.2	11.3
Black Lung	1.8	2.0	1.8	1.8	1.8	1.8	1.8	1.8
Railroad Retirement b/	4.7	5.3	5.7	5.9	6.0	6.2	6.3	6.4
Means-Tested Programs								
AFDC c/	7.3	8.0	8.1	8.4	8.5	8.8	9.1	9.5
SSI d/	6.4	7.7	8.6	7.4	8.1	8.4	8.6	9.6
Veterans' Pensions	3.6	3.9	3.8	3.7	3.7	3.6	3.5	3.5
Food Stamps e/	9.1	11.0	12.4	12.2	12.5	13.1	13.5	13.8
Partially Means-Tested Programs f/								
Guaranteed Student Loans	1.4	3.0	2.5	2.6	2.9	2.8	2.6	2.5
Child Nutrition	4.7	4.4	4.6	4.9	5.2	5.4	5.7	6.0
Public Service Grants for States and Localities								
General Revenue Sharing	6.9	4.6	4.6	4.7	5.0	5.2	5.5	5.7
Title XX Social Services	2.8	2.6	2.5	2.5	2.6	2.7	2.7	2.7
Total	75.5	87.4	97.6	92.2	93.4	95.0	96.4	98.4

a. Less than $50 million.

b. About 60 percent of outlays for Railroad Retirement provide Social Security benefits for retired railroad workers.

c. AFDC estimates include the Child Support Enforcement program.

d. Fiscal years 1983 and 1988 include 13 months of benefits; fiscal year 1984 includes 11 months.

e. Estimates include nutrition assistance for Puerto Rico.

f. These programs, while partially means-tested, do serve some higher-income households.

SOURCE: CBO, Deficits, 83, op. cit., p. 118.

** This table also used as TABLE V-7 in next chapter.

CHAPTER V: CAN ENTITLEMENTS BE CONTROLLED UNDER THEIR PRESENT STRUCTURES WITHIN THE BUDGETARY PROCESS?--- PRESENT AND IMMEDIATE-FUTURE STRATEGIES

Chapter IV identified two available options necessary for Congress to constrain the growth of spending for entitlement programs. Reconciliation, one of those options, has several limitations which restrict it from being the panacea device Congress needs to enact such control (See p.51).The other, making structural changes in the nature of entitlements within the budgetary system, also is limited by the political dynamics of congressional activity and tradition. Alone, neither option has much chance of succeeding. Combined, reconciliation provides the necessary access and opportunity within the budgetary process for significant structural changes to be made, and the impetus for such changes adds the ingredient needed for reconciliation to become the effective procedural device for controlling entitlements that its proponents say it can.

In order to demonstrate the viability of that assertion, this chapter discusses, in some detail, the majority of the current and immediate-future strategies being considered and/or implemented to constrain entitlement spending,and their cost implications as a measurement of their potential to control entitlements. It is a given that reconciliation and the budget process are the vehicles through which any of these strategies would be implemented.

Both the OMB and the CBO have done recent studies analyzing strategies to reduce entitlement spending. Both sets of strategies and the economic assumptions they are based on provide the data for the discussion here. Additionally, both the CBO and the President's National Commission on Social Security Reform have analyzed the nature and future of the biggest entitlement of all in the federal budget: Social Security. Though some of the strategies they both discuss are similar, they too are based on different economic assumptions, on the one hand, and the CBO's analysis seems to incorporate more structured change options than does that of the Commission, on the other. Table IV-1 from the preceding chapter shows the relevant economic assumptions for the CBO and the OMB analyses. The assumptions for the National Commission study on Social Security are shown in Table V-1. It includes three alternative assumptions: optimistic, intermediate and pessimistic, plus their consequences. Additionally, assumptions in II-A of the Table, for the years 1981-87, are updated versions of the Reagan administrations's economic assumptions for fiscal 1983.

This chapter discusses most of the entitlement categories defined in earlier chapters of this thesis. The interest on the public debt is not included since there are presently few, if any, strategies being considered to control it, other than reducing the federal deficit in general.

I. Social Security

There are two cash benefit sections of Social Security: the OASI and DI (Disability Insurance).[1] Together (as OASDI) they account for more than 20% of the entire federal budget, and more than 40% of the costs of all of the government programs providing benefits to individuals.[2] The other two trust funds comprising Social Security are the Hospital Insurance Trust Fund (HI), and the Supplementary Medical Insurance Trust Fund (SMI). The OASDI and HI funds are primarily financed through payroll taxes, and the SMI by the Treasury through the General Fund and enrollee premiums.

The problems of Social Security financing principally concern OASDI funding and are mainly twofold: the short-term difficulty resulting from a steady increase in benefit payments continually exceeding concomitant increases in payroll tax revenues; and the long-term difficulty of a major increase in the retirement population projected for the near future.[3] The short-term imbalance between outlays and receipts is a consequence of the economic crises of the late 1970's and 1980's and their reflections

TABLE V-1:THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM--

SELECTED ECONOMIC ASSUMPTIONS BY ALTERNATIVE, CALENDAR YEARS 1960-2060

Calendar year	Average annual percentage increase in— Real GNP[1]	Average wages in covered employment	Consumer price index	Real-wage differential[2] (percent)	Average annual interest rate[3] (percent)	Average annual unemployment rate[4] (percent)
Past experience:						
1960-64	4.0	3.4	1.3	2.1	3.7	5.7
1965-69	4.4	5.4	3.4	2.0	5.2	3.8
1970	-.2	4.9	5.9	-1.0	7.3	4.9
1971	3.4	4.9	4.3	.6	6.0	5.9
1972	5.7	7.3	3.3	4.0	5.9	5.6
1973	5.8	6.9	6.2	.7	6.6	4.9
1974	-.6	7.4	11.0	-3.6	7.5	5.6
1975	-1.1	6.6	9.1	-2.5	7.4	8.5
1976	5.4	[5]8.2	5.7	[5]2.5	7.1	7.7
1977	5.5	[5]8.0	6.5	[5]1.5	7.1	7.0
1978	4.8	[5]8.2	7.6	[5].6	8.2	6.0
1979	3.2	[5]8.8	11.4	[5]-2.6	9.1	5.8
1980	-.2	[5]8.6	13.5	[5]-4.9	11.0	7.1
Alternative I:						
1981	[6]2.1	8.8	10.3	-1.5	13.3	7.6
1982	1.1	8.2	6.3	1.9	12.7	8.6
1983	5.6	7.3	5.9	1.4	10.3	7.4
1984	5.4	7.5	4.6	2.9	7.8	6.5
1985	5.1	7.0	4.2	2.8	6.6	5.8
1986	4.8	6.7	3.8	2.9	6.0	5.4
1987	4.6	6.4	3.4	3.0	5.7	5.0
1988	4.4	6.1	3.0	3.1	5.6	4.8
1989	4.2	5.7	2.6	3.1	5.4	4.6
1990	4.0	5.2	2.2	3.0	5.3	4.3
1995	3.4	4.5	2.0	2.5	5.1	4.0
2000 & later	[7]3.5	4.5	2.0	2.5	5.1	4.0
Alternative II-A[8]:						
1981	[6]1.9	8.8	10.3	-1.5	13.3	7.6
1982	.3	8.6	6.8	1.8	13.4	8.9
1983	5.2	6.3	6.0	.3	12.1	7.9
1984	5.0	5.6	4.6	1.0	10.8	7.1
1985	4.8	7.4	4.8	2.6	9.8	6.4
1986	4.4	7.3	4.6	2.7	8.2	5.8
1987	4.3	7.1	4.5	2.6	6.7	5.3
1988	4.1	7.1	4.3	2.8	6.4	5.2
1989	3.9	6.6	3.9	2.7	6.2	5.1
1990	3.7	6.0	3.5	2.5	6.0	5.0
1995	3.0	5.0	3.0	2.0	5.6	5.0
2000 & later	[7]3.1	5.0	3.0	2.0	5.6	5.0
Alternative II-B:						
1981	[6]1.8	8.6	10.3	-1.7	13.3	7.6
1982	-.8	6.6	6.9	-.3	13.0	9.1
1983	4.2	8.1	7.9	.2	11.4	8.5
1984	3.3	8.1	7.4	.7	9.3	8.0
1985	3.0	6.9	6.6	.3	8.0	7.7
1986	3.0	6.8	5.8	1.0	7.1	7.4
1987	3.0	6.6	5.5	1.1	6.8	7.1
1988	3.0	6.6	5.3	1.3	6.6	6.8
1989	3.0	6.4	4.9	1.5	6.5	6.4
1990	3.0	6.0	4.5	1.5	6.4	6.1
1995	2.5	5.5	4.0	1.5	6.1	5.0
2000 & later	[7]2.6	5.5	4.0	1.5	6.1	5.0
Alternative III:						
1981	[6]1.8	8.6	10.3	-1.7	13.3	7.6
1982	-1.5	6.3	7.2	-.9	13.1	9.3
1983	.6	7.3	9.6	-2.3	12.3	9.8
1984	2.5	7.8	9.6	-1.8	10.5	9.6
1985	3.8	9.2	9.2	.0	9.4	8.8
1986	2.9	9.1	8.8	.3	8.8	8.4
1987	2.7	8.7	8.4	.3	8.3	8.0
1988	2.7	8.5	8.0	.5	8.1	7.7
1989	2.7	8.3	7.6	.7	7.8	7.3
1990	2.7	8.0	7.2	.8	7.6	6.9
1995	1.8	6.2	5.2	1.0	6.7	6.0
2000 & later	[7]2.1	6.0	5.0	1.0	6.6	6.0

[1]The real GNP (Gross National Product) is the total output of goods and services expressed in constant dollars.

[2]The difference between the percentage increase in average annual wages in covered employment and the percentage increase in the average annual CPI.

[3]The average of the interest rates determined in each of the 12 months of the year for special public-debt obligations issuable to the trust funds.

[4]The ultimate rates are adjusted by age and sex based on the total labor force aged 16 and over as of July 1, 1970. Rates shown for earlier years are civilian unemployment rates for those years.

[5]Preliminary.

[6]The actual value of the 1981 increase in real GNP was 2.0 percent. This value was not available at the time the cost estimates were prepared; the cost estimates were based on the assumed increases in real GNP shown under the four alternatives.

[7]This value is for the year 2000. The annual percentage increase in real GNP is assumed to continue to change after 2000 under each alternative to reflect the dependence of labor force growth on the size and age-sex distribution of the population. The percentage increases for 2060 are 3.4, 2.5, 2.1, and 1.0 for alternatives I, II-A, II-B, and III, respectively.

[8]The economic assumptions in alternative II-A for 1981-87 are identical to or derived from the assumptions underlying the President's 1983 Budget, with the exception of the assumed 1981 increases in the nominal wage and the real wage as well as the assumed 1982 increases in the real wage and the CPI, all of which have been adjusted to reflect actual experience available since the Budget assumptions were released.

** Assumptions I= Optimistic Assumptions
Assumptions II= Intermediate Assumptions
Assumptions III= Pessimistic Assumptions

SOURCE: <u>THE REPORT OF THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM</u>, January, 1983. Appendix K, page 82.

in the numerous cost-of-living adjustments, but not in the wages of workers. Unchanged, the deficit trend for the OASDI fund alone is projected at $10.8 billion/year.[4] The long-term problem is more demographic than strictly economic, with the very age structure of the American population projected to change by the early decades of the 21st century, combined with a fundamental decline in workers contributing to Social Security relative to beneficiaries estimated by 2030.[5]

As previously mentioned, the reconciliation cuts during 1980-82 affected Social Security outlays by a small 2% reduction only. Partially, this was because any significant reduction in Social Security benefits was not viewed as politically expedient by Congress, but since OASDI outlays are huge, even small percentage reductions like that translated into billions of current dollars in reduced spending. However, the averaged expenditures for the OASDI program still annually accounted for close to $9 billion of the federal budget deficit during that same period.[6] The only significant reduction in overall Social Security benefits was during the 1980-82 elimination of benefits for post-secondary students, as the other legislated cut--elimination of the minimum benefit threshold--was rather quickly restored for pre-1982 beneficiaries after a storm of political protest.

Table V-II shows the Congressional Budget Office's projected OASDI and Hospital Insurance expenditures for 1983-88. Without substantial changes in current law, these projections predict a significant shortfall between expenditures and revenues for the next 5 years. (See Table IV-I for the assumptions these projections are based on.) The system will need approximately $71 billion in additional revenues for 1983-88 just to stave off insolvency, and the National Commission estimated that the system needs $150-200 billion overall during that period.[7]

TABLE V-2: CURRENT LAW PROJECTIONS OF SOCIAL SECURITY TRUST FUND OUTLAYS, INCOMES, AND BALANCES (In billions of dollars)

	Actual		Estimated	Baseline Projection				
	1980	1982	1983	1984	1985	1986	1987	1988
				Old Age and Survivors Insurance				
Total Outlays	103.2	137.9	152.7	164.4	176.5	189.1	201.8	216.1
Income a/	100.1	126.6	146.5	138.3	150.8	162.5	172.7	185.1
Year-End Balance	24.6	12.5	6.3	-19.8	-45.5	-72.1	-101.2	-132.1
Start-of-Year Balance as Percent of Outlays	26.8	17.3	8.2	3.9	-11.2	-24.1	-35.7	-46.8
				Disability Insurance				
Total Outlays	15.3	18.0	18.7	19.1	19.2	19.4	20.0	20.8
Income a/	17.4	21.4	19.0	26.8	32.7	37.4	41.0	45.0
Year-End Balance	7.7	6.8	7.0	14.8	28.3	46.3	67.2	91.4
Start-of-Year Balance as Percent of Outlays	36.6	18.8	36.0	37.0	77.0	146.0	231.2	323.9
				Combined OASI and DI				
Total Outlays	118.5	156.0	171.4	183.5	195.6	208.5	221.8	236.8
Income a/	117.4	148.0	165.5	165.0	183.4	199.9	213.7	230.1
Year-End Balance	32.2	19.3	13.4	-5.1	-17.3	-25.8	-34.0	-40.7
Start-of-Year Balance as Percent of Outlays	28.1	17.5	11.3	7.3	-2.6	-8.3	-11.6	-14.3
				Combined OASI, DI, and Hospital Insurance				
Total Outlays	142.8	190.8	210.4	227.8	245.3	265.8	288.3	311.6
Income a/	142.8	185.6	193.4	209.3	232.0	255.1	272.9	293.0
Year-End Balance	46.7	40.1	23.2	4.7	-8.6	-19.4	-34.7	-53.3
Start-of-Year Balance as Percent of Outlays	32.7	23.8	19.1	10.2	1.9	-3.2	-6.7	-11.1

NOTE: Minus signs denote a deficit.

a. Income to the trust funds is budget authority. It includes payroll tax receipts, interest on balances, and certain general fund transfers. Income in 1983 reflects interfund transfers as authorized under the Social Security Amendments of 1981. In order to illustrate better the operations of the trust funds under extended interfund or other types of borrowing or under tax rate reallocation, estimated interest payments owed by a trust fund when it shows a deficit are included as negative values in the income estimates of that trust fund.

SOURCE: Reducing the Deficit: Spending and Revenue Options, Congressional Budget Office (Washington, D.C.: U.S. Government Printers, 1983), p. 67. Hereafter cited as CBO, Deficit '83.

Strategies to Solve the Financing Problems of Social Security

The National Commission on Social Security Reform's study and the principal CBO study cited here had two different aims. The National Commission study was intended to find a practical way of keeping the Social Security system solvent, and thus all of their recommendations focused on effecting financial savings and raising revenue. The CBO study, on the other hand, was primarily aimed at exploring effective strategies to reduce Social Security's impact on the federal budget deficit in the near future, and only secondarily at discussing strategies to keep Social Security solvent. As such, the CBO study focused on both across-the-board and targeted reduction strategies. Although variations of several of the strategies were included in both studies (e.g., shifting COLAs and increasing selected tax rates), the CBO study had a greater emphasis on structural change options than did the National Commission study. In fact, the latter specifically recommended that neither the fundamental structure of the Social Security program nor its fundamental principles be altered.[8]

Below is a summary analysis of the Social Security strategies discussed by both studies. The OMB analysis included in the President's fiscal 1983 package of budget proposals, defers any action on Social Security to the National Commission's recommendations.[9]

Across-the-Board Options:

A. Reducing the COLAs for Social Security

Reducing or eliminating COLAs has been an option bandied about for several years. Such reduction was achieved for the 1983 fiscal year for younger retirees, as mentioned earlier in this thesis, but it and all of the other various COLA-reduction/elimination strategies depend heavily on the rate of inflation to have much effect other than a negative one for elderly and disabled beneficiaries. Higher inflation rates when COLA-reductions are legislated mean greater savings, thus the 1980-81 fiscal years would have been better suited than the current year.[10]

Reductions in COLAs would, theoretically, decrease the growth rate of Social Security expenditures, but they would neither solve the short or long-term solvency problem of the Social Security system nor necessarily stabilize the trust funds of the system. In addition, such reductions would increase the incidence of poverty among the elderly and disabled, since the resultant loss of income would not usually be offset by significantly increased participation by Social Security beneficiaries in means-tested programs like SSI and Food Stamps.[11]

According to the CBO analysis, the four major COLA-reduction/elimination options for the 1980's are a permanent COLA delay, capping COLAs, eliminating the 1983 COLA, and eliminating both the 1983 and 1984 COLAs. For 1984-85, a cumulative estimated $10.4 billion would be saved by permanently switching the annual timing of COLAs from July to October, $57.9 billion from capping COLAs at the CPI level less 2 percentage points, $33.7 billion for repealing the 1983 COLA alone, and an estimated $67.1 billion will be saved by eliminating both the 1983 and 1984 COLAs.[12] The National Commission study recommended a permanent shift of the COLA payments to a calender year rather than fiscal year basis. This is another delayed COLA strategy estimated to save $40 billion between 1983-89.[13]

B. Increasing Payroll Tax Rates

This strategy is already legislated for 5.7% (from 5.4%) in 1985 and 6.2% in 1990. The argument is for implementing these increases earlier to affect the increase of short-term revenues without fundamentally altering the long-term tax rates. For example, according to the CBO, implementing the January 1, 1985 rate increase on January 1, 1984 would produce an estimated $6.4 billion of extra revenues in 1984, and $2.3 billion in 1985; while moving the 1990 increase to 1984 would raise an estimated $97.6 billion between 1984-1988.[14] The National Commission also recommended that the 1985 and 1990 rates be revised. It estimated savings at $40 billion for such shifts between 1983-89.[15]

The advantages include large receipt yields at the cost of relatively small percentage increases for each worker, the lessened need for benefit reductions which a priori will have an adverse effect on beneficiaries, and the maintenance of the present method of financing Social Security. The disadvantages include increased tax burdens on workers, however modest individually, which will add to 4 other payroll tax-rate hikes since 1977 to keep the system solvent, the real reduction in take-home pay that will inevitably result, and the predicted adverse effect on the nation's economy (i.e., it is expected to raise labor costs, reduce employment and re-spark inflation).[16]

C. Changing the Benefit Formula

The basic formula for initial Social Security benefits utilizes three calculated quantities associated with a worker's Average Indexed Monthly Earnings (or AIME, which is an adjusted measure of average monthly earnings covering the years of eligible employment). 90% of the first $254 of the worker's AIME, plus 32% of the next $1274 of AIME, plus 15% of all AIME in excess of $1528 equals a person's basic benefit. The argument for the relevant option is to adjust the first and last amounts (the percentage of $254 and $1528) which are called bend points. There is already an automatic upward adjustment of them based on the increase in overall average earnings of American workers, and, according to the CBO, the argument is to adjust them by 75% rather than 100%.[17] In the short-run, there would be an estimated $1.2 billion in savings for 1984-88, an amount not seemingly worth the effort unless accompanied by other changes. For the long-run, this type of adjustment, theoretically, would have more of a substantial impact.[18]

Associated with this type of option is a variant of the strategy employed in the recent legislation for reducing COLAs for younger retirees. It argues for a lengthening of the AIME formula computation period by three years-- to age 65, rather than 62. It would lower early retiree benefit levels, and would lessen incentives for early retirement, but disproportionately affect disabled recipients even more adversely. It would save an estimated $1.6 billion in the short-run during 1984-88, and again not be worth the short-term effect alone.[19]

See Table V-3 for a summary of the CBO across-the-board options and their cost effects, and Table V-4 for a summary of the National Commission recommendations.

<u>Targeted Reduction Options</u> [20]

A. According to the CBO, eliminating benefits for the children of early retirees (ages 62-64) would produce an estimated $1.6 billion in cumulative savings from 1984-88. Currently, the unmarried child of a retired worker is categorically eligible for 50% of the amount of the retiree's basic benefit with certain restricted total amounts per family. Repealing that would encourage later retirement and further reduce short-term outlays.

B. Tightening the family limit for OASI benefits by making it identical to that for the more restrictive DI benefits for all new OASI beneficiaries

TABLE V-3: IMPACT ON THE SOCIAL SECURITY TRUST FUNDS OF ACROSS-THE-BOARD CHANGES a/ (In billions of dollars)

Options	1984	1985	1986	1987	1988	Cumulative Five-Year Savings
			Short-Run COLA Reductions			
Delay the COLA by Three Months	2.0	2.1	2.1	2.1	2.1	10.4
Cap the COLA at the CPI Increase Minus 2 Percentage Points Through 1988	4.2	7.8	11.5	15.3	19.1	57.9
Eliminate the 1983 COLA	6.8	6.9	6.9	6.7	6.4	33.7
Eliminate the 1983 and 1984 COLAs	8.8	14.8	14.8	14.6	14.1	67.1
			Short-Run Payroll Tax Rate Increases			
Move 1985 Rate to January 1984	6.4	2.3	0	0	0	8.7
Move 1985 and 1990 Rates to January 1984	19.3	19.4	18.3	19.6	21.0	97.6
			Long-Run Changes			
Restrict Increases in Formula Bend Points to 75 Percent of Wage Increases	b/	0.1	0.2	0.3	0.6	1.2
Lengthen Computation Period by Three Years	b/	0.1	0.3	0.5	0.7	1.6

a. The impact of these options on the federal budget deficit may be somewhat smaller than the trust fund effects shown here, due to offsetting increases in spending for other federal programs or reductions in federal tax receipts. For the options that would reduce spending, only the effects on outlays are shown in this table, because changes in budget authority (which includes interest) are uncertain when trust fund balances are negative and declining.

b. Less than $50 million.

SOURCE: CBO, Deficit '83, p. 72.

TABLE V-4: SUMMARY OF THE NATIONAL COMMISSION'S RECOMMENDATIONS--

SHORT-RANGE AND LONG-RANGE COST ANALYSIS OF OASDI PROPOSALS

Proposal	Short-Term Savings, 1983-89 (billions)	Long-Range Savings (percentage of payroll)
Cover nonprofit and new Federal employees[c/]	+$20	+.30%
Prohibit withdrawal of State and local government employees	+3	--
Taxation of benefits for higher-income persons	+30	+.60
Shift COLAs to calendar-year basis	+40	+.27
Eliminate windfall benefits for persons with pensions from noncovered employment	+.2	+.01
Continue benefits on remarriage for disabled widow(er)s and for divorced widow(er)s	-.1	--
Index deferred widow(er)'s benefits based on wages (instead of CPI)	-.2	-.05
Permit divorced aged spouse to receive benefits when husband is eligible to receive benefits	-.1	-.01
Increase benefit rate for disabled widow(er)s aged 50-59 to 71½% of primary benefit	-1	-.01
Revise tax-rate schedule	+40	+.02
Revise tax basis for self-employed	+18	+.19
Reallocate OASDI tax rate between OASI and DI	--	--
Allow inter-fund borrowing from HI by OASDI	--	--
Credit the OASDI Trust Funds, by a lump-sum payment for cost of gratuitous military service wage credits and past unnegotiated checks	+18	--
Base automatic benefit increases on lower of CPI or wage increases after 1987 if fund ratio is under 20%, with catch-up if fund ratio exceeds 32%	--	--
Increase delayed retirement credit from 3% per year to 8%, beginning in 1990 and reaching 8% in 2010	--	-.10[a/]
Additional long-range changes[b/]	--	+.58
Total Effect	+168	+1.80

a/ This cost estimate assumes that retirement patterns would be only slightly affected by this change. If this change does result in significant changes in retirement behavior over time, the cost increase would be less (or possibly even a small savings could result).

b/ Alternate methods for obtaining this long-range savings are presented in the Additional Statements of the members (in Chapter 4).

c/ Includes effect of revised tax schedule.

SOURCE: THE REPORT OF THE NATIONAL COMMISSION, op. cit. p. 2-5. In April, 1983, all of the above recommendations were enacted into law with President Reagan's signing of the Social Security Reform Act. See Chapter VI for a discussion.

would save an estimated $2.1 billion dollars over 1984-1988.[21] It would regressively affect lower benefit families more adversely than higher benefit beneficiaries, but also bring benefits and earnings more in line with each other.

C. Increasing the waiting period for DI benefits from five to six months which returns the regulation to pre-1972, would save an estimated $1 billion dollars during 1984-88. This too would be regressive, adversely affecting the low-income disabled more, but administratively bring DI eligibility into line with other Social Security and private disability plans.

D. Taxing 50% of Social Security benefits for families with incomes exceeding $12,000 (single parent) or $18,000 (couples) would be similar to the current state of UI benefit taxation.[22] It would raise an estimated $29.7 billion over 1984-88 and could be targeted directly into the trust funds. This is a far more progressive option than either B or C above. It would reduce the disparities between Social Security benefits and other pensions and in effect, be similar to "an income-targeted benefit cut."[23] It would also reduce or eliminate an incentive for early retirement since the current exemption for S.S. Benefits increases their value relative to earnings, and it would help lessen the present disparity between earnings/contributions and benefits (usually well in excess of the former).

E. Extending Social Security coverage to the 10% of job categories not now participating would increase trust fund income. Present arguments are to include federal civilian employees, state and local government employees, and employees of nonprofit organizations. Although 90% of all job categories in America are now covered by Social Security, 90% of federal civilian employees are not covered, 30% of state/local government employees are not now covered and 20% of the nonprofit employees.[24]

The CBO study indicates that adding all new federal civilian workers and those with less than five years of employment into the Social Security system would produce an estimated $12.6 billion dollars over the 1984-88 period. This can be added to the $6.7 billion estimated from requiring the participation of non-profit employees, which is presently on a voluntary basis. The National Commission estimates the savings to be $20 billion for the 1983-89 period for adding both new federal employees and non-profit workers into the Social Security system. Such a strategy would presumably offer federal workers better disability and survivor protection than the Civil Service Retirement system provides, and reduce the present inequity of many federal workers benefiting from Social Security without significantly contributing earnings to it. However, one great obstacle to this option is the necessity of fundamentally changing the CSR system to implement it.[25] For the non-profit employee participation, another major disadvantage would be possible labor cost increases and probable employee reductions.

Adding state/local government employees would raise an estimated $1.9 billion in revenues from 1984-88, according to the CBO. The National Commission recommended that prohibiting the withdrawal of present local and state employees on Social Security, and adding new ones, would raise an estimated $3 billion.[26] As with federal workers the disability and survivors benefits are thought to be better, and, unlike most other pension plans, Social Security is transferable from job to job. There will be constitutional problems, however, in the federal government seeking to collect the employers' share of payroll taxes from state and local governments. In addition, there may be greater state/local costs involved in the new arrangements, and in this day of fiscal crisis, they will be very reluctant to agree to participate.[27]

See Table V-5 for a summary of all of these options based on the CBO study, and V-6 for another view of the National Commission's recommended strategies.

II. Medicare and Medicaid

These two entitlement programs face continued pressure for undisciplined expenditure growth for the rest of the 1980's principally because of the uncontrolled growth in medical care costs, with the increase in the low-income, elderly and disabled population only accounting for about 2% of that problem. See Table V-7 for the CBO projections of federal outlays for Medicare and Medicaid. As already mentioned earlier in this thesis, the fiscal 1982 and 1983 expenditures would have been even higher except for the 1981 Reconciliation Act's cuts, particularly in federal payments for Medicaid. Medicare costs were around 1% lower than what they would have been, and Medicaid 5%. The Tax Equity and Fiscal Responsibility Act, 1982, (TEFRA) made additional reductions, particularly in Medicare coverage, with savings estimated at $11.3 billion (5.4% of projected outlays) in Medicare expenditures during 1983-85, and $1 billion (1.5%) in Medicaid.[28] These reductions were all either from changes in hospital reimbursements, or from other modifications in federal and state benefit and payment policies - in effect, nonstructural program changes. Such will not bring Medicare and Medicaid entitlement spending under control.[29]

TABLE V-5: IMPACT ON THE SOCIAL SECURITY TRUST FUNDS OF TARGETED STRATEGIES TO REDUCE SOCIAL SECURITY BENEFITS a/ (In billions of dollars)

Options	1984	1985	1986	1987	1988	Cumulative Five-Year Savings
Eliminate Benefits for Children of Early Retirees	b/	0.2	0.3	0.5	0.6	1.6
Tighten the Limit on Family Benefits for OASI Beneficiaries	0.1	0.2	0.4	0.6	0.8	2.1
Increase the Waiting Period for DI Benefits to Six Months	0.2	0.2	0.2	0.2	0.2	1.0

a. The impact of these options on the federal budget deficit may be somewhat smaller than the trust fund effects shown here, due to offsetting increases in spending for other federal programs or reductions in federal tax receipts. For the options that would reduce spending, only the effects on outlays are shown in this table, because changes in budget authority (which includes interest) are uncertain when trust fund balances are negative and declining.

b. Less than $50 million.

Benefits for post-secondary school students between the ages of 18 and 22 are currently being phased out.

SOURCE: CBO, Deficit, 83, pp. 77, 80, 83. (continued)

TABLE V-5 (continued)

REVENUE GAINS FROM TARGETED STRATEGIES TO INCREASE SOCIAL SECURITY TAXES (In billions of dollars)

Options	1984	1985	1986	1987	1988	Cumulative Five-Year Increase
Tax 50 Percent of OASDI Benefits for Families with Total Incomes Above $12,000 (Individuals)/ $18,000 (Couples)						
Trust fund revenues	1.7	5.8	6.6	7.4	8.2	29.7
Unified budget revenues	1.7	5.8	6.6	7.4	8.2	29.7
Increase Self-Employed Tax Rate to Combined Employer-Employee Rate and Allow 50 Percent of Payroll Tax to Be Deductible						
Trust fund revenues	0.9	2.7	2.9	3.1	3.3	12.9
Unified budget revenues	0.4	1.3	1.4	1.5	1.6	6.2

TABLE V-5 (continued) REVENUE GAINS FROM EXTENDING SOCIAL SECURITY COVERAGE (In billions of dollars)

Options	1984	1985	1986	1987	1988	Cumulative Five-Year Increase
Cover Federal Civilian Workers with Fewer Than Five Years of Service						
Trust fund revenues	1.1	1.9	2.6	3.2	3.8	12.6
Unified budget revenues a/	0.6	1.0	1.3	1.6	1.9	6.4
Cover New State and Local Government Employees						
Trust fund revenues	0.1	0.2	0.4	0.5	0.7	1.9
Unified budget revenues	0.1	0.2	0.4	0.5	0.7	1.9
Cover All Employees of Nonprofit Organizations						
Trust fund revenues	0.9	1.3	1.6	1.8	2.1	6.7
Unified budget revenues	0.9	1.3	1.6	1.8	2.1	6.7

a. Estimate is based on the assumption that the CSR contribution rate would be unaffected, so new federal employees would pay both Social Security taxes and CSR contributions. Alternatively, if the supplementary pension plan paralleled most private plans by requiring no employee contribution, reductions in the federal deficit would be much smaller and would primarily consist of employers'-share payments from the Postal Service.

TABLE V-6: ESTIMATED IMPACT OF THE NATIONAL COMMISSION'S PROPOSALS ON OASDI TRUST FUNDS (In billions of dollars)

	1983	1984	1985	1986	1987	1988	Total 1983-1988
			Trust Fund Outlay Reductions				
Delay COLA from July to January	1.7	3.8	4.2	4.5	4.7	5.2	24.1
Miscellaneous Benefit Provisions a/	0	-0.1	-0.2	-0.3	-0.3	-0.4	-1.3
Total Outlay Reductions	1.7	3.7	4.0	4.3	4.4	4.8	22.8
			Trust Fund Income Increases				
Tax 50 Percent of OASDI Benefits b/	0	1.2	4.2	4.9	5.6	6.4	22.4
Increase Payroll Tax Rate	0	6.4	2.3	0	0	10.3	19.0
Increase Self-Employed Tax Rate	0	1.0	3.0	2.9	3.1	3.5	13.6
Extend Coverage c/	0	1.0	1.9	2.5	3.2	4.3	12.9
Credit Trust Funds for Military Wage Credits and Reimbursement for Uncashed Benefit Checks	19.9	-0.3	-0.4	-0.4	-0.1	-0.1	18.6
Total Income Increases	19.9	9.4	11.1	9.9	11.8	24.5	86.6
Total Reductions in Outlays and Increases in Income	21.6	13.1	15.1	14.3	16.2	29.3	109.6
Estimated Increase in Interest Income	0.3	2.9	4.4	5.8	6.8	8.3	28.5
Total Increase in OASDI Trust Funds	21.9	16.0	14.5	20.0	23.0	37.6	138.1

NOTE: Preliminary CBO estimates. Components may not add to totals due to rounding. Negative numbers indicate outlay increases or revenue reductions.

a. Provisions include increasing benefits for certain groups of widowed and divorced persons, and decreasing benefits to persons with pensions from employment not covered by Social Security.

b. Estimate assumes that taxes on OASDI benefits would be phased in the same way as are taxes on Unemployment Insurance benefits.

c. Estimate includes effect of prohibiting the withdrawal of state and local governments from Social Security.

SOURCE: CBO, Deficit, '83, p. 88.

TABLE V-7: FEDERAL OUTLAYS FOR MEDICARE AND MEDICAID
(In billions of dollars)

Major Program	Actual		Estimated	Baseline Projection				
	1980	1982	1983	1984	1985	1986	1987	1988
Medicare	35.0	50.4	57.1	65.4	74.0	85.2	98.7	112.1
Hospital Insurance	24.3	34.9	38.9	44.3	49.7	57.3	66.4	74.7
Supplementary Medical Insurance	10.7	15.6	18.2	21.1	24.3	27.9	32.3	37.3
Medicaid	14.0	17.4	19.4	21.3	24.1	26.2	28.7	31.4

SOURCE: CBO, Deficit, 83, p. 98.

Current Options

There are two principal categories of current strategy for better controlling Medicare/Medicaid costs: a continuation of the programmatic approach (i.e., cosmetic changes in benefit regulations and reimbursement policies) and a structural approach to enact legislation, "aimed at the medical care system as a whole."[30] The programmatic options include increased beneficiary cost sharing, prospective hospital reimbursement and changes in physician reimbursement.[31] See Table V-8 for the CBO cost projections associated with these options.

The structural approach is thus far concentrated on encouraging marketplace competition in the medical care field, and increased government regulation of medical care. Currently there is little of either, and under the present administration more government regulation of such a vast industry as medical care is highly improbable. At least one federal resource capable of initiating such competition is the current tax subsidy for employer-paid health insurance for employees. Currently employers get a tax break by converting some employee compensation to health insurance as opposed to employee cash payments. Repeal of this tax subsidy would fuel an increased utilization of employer-employee cost sharing plans and market searches for cost containment plans. In addition, there is an increasing advocacy for greater usage of Health Maintenance Organizations as health care providers, and instituting larger beneficiary deductibles and more use of coinsurance arrangements to spur marketplace competition.

Regulation would, for the most part, involve more government control of payments to health care delivery systems and a standardization of types and costs of patient services. An example of such standardization would be

TABLE V-8: BUDGET SAVINGS FROM PROGRAM CHANGES IN MEDICARE AND MEDICAID (In millions of dollars)

Options	1984	1985	1986	1987	1988	Cumulative Five-Year Savings
Medicare						
Increase Beneficiary Cost-Sharing						
Expand Hospital Coinsurance Days 2-30 a/						
Budget Authority	-190	-520	-800	-1,070	-1,370	-3,950
Outlays	1,980	3,010	3,400	3,820	4,290	16,490
Expand Hospital Coinsurance with Cap on Out-of-Pocket Costs for Some a/						
Budget Authority	-70	-240	-400	-550	-720	-1,980
Outlays	1,190	1,820	2,050	2,320	2,610	9,990
Increase SMI Premiums a/						
Budget Authority	900	1,120	1,700	2,460	3,370	9,550
Outlays	900	1,120	1,700	2,460	3,370	9,550
Increase SMI Premiums for High-Income Families Only						
Budget Authority	240	300	450	650	890	2,530
Outlays	240	300	450	650	890	2,530
Tax the Premiums for Supplemental Coverage b/	2,390	3,610	4,160	4,820	5,470	20,450

SOURCE: CBO, Deficit,83, pp. 104-105. (continued)

TABLE V-8 (continued)

Options	1984	1985	1986	1987	1988	Cumulative Five-Year Savings
Move to Prospective Hospital Reimbursement						
Replace Reimbursement Limits in TEFRA with Prospective Reimbursement						
Budget Authority	--	--	-80	-300	-580	-960
Outlays	--	--	2,140	4,100	4,610	10,850
Change Physician Reimbursement						
Limit Reasonable Charge Growth						
Budget Authority	40	260	670	1,200	1,830	4,000
Outlays	10	190	590	1,100	1,730	3,620
Adopt Fee Schedules for Surgical Procedures						
Budget Authority	170	700	810	940	1,100	3,720
Outlays	180	680	790	920	1,070	3,640
Medicaid						
Extend Cuts in Matching Grants for Medicaid						
Budget Authority	--	870	660	840	1,040	3,410
Outlays	--	870	660	840	1,040	3,410

a. Savings estimates reflect the concurrent increase in federal Medicaid expenditures.

b. Savings are a combination of outlay reductions and revenue increases. Budget authority estimates are not available.

**The Social Security Reform Act, 1983, contained an enactment of some provisions which call for a fundamental change in the reimbursement procedures for beneficiary care and cost containment. See Chapter VI for a further discussion.

mandating a prospective rather than retrospective reimbursement policy for all providers of medical care payments. Such would force hospitals to attempt to limit their currently unrestrained expansion in costs. This strategy is already being demonstrated in 7 states which have instituted hospital cost control policies. Their combined growth in 1976-81 in-patient expenses is 11%/year as compared to 14% in states without hospital cost control programs.[32] Regulation could also entail a standardization of physicians' fees and the establishment of federal health care planning guidelines. The former is already being successfully done in other countries.

More of this type of structural solution should be actively pursued to contain entitlement spending in the medical field.

III. Other Entitlement Programs

The heavyweights of "uncontrollability" in entitlements are Social Security, Medicare/Medicaid and currently, unemployment compensation. All three require heavy outlay commitments from the budget even without indexation, just because of the nature of their program goals and scope. Excluding the agricultural entitlements, and interest on the public debt, the rest of the entitlement programs have undisciplined increases only insofar as indexation, program interaction, and numbers of beneficiaries affect the steady growth of their funding needs and their combined, overall numbers. Individually, these programs do not require huge federal outlay commitments. In spite of that, these programs, most especially the means-tested individual assistance categories, sustained the bulk of the highly publicized 1981 Reconciliation Act budget cuts. Reductions ranging from 10-20% of CBO estimated outlays were implemented in all of the means-tested programs other than SSI and Veterans' Pensions, and in the Guaranteed Student Loan program, child nutrition, UI, Trade Adjustment Assistance and Title XX Social Services,[33] as mentioned earlier in this thesis. Additionally, the OMB continued to view the problem of control of entitlements as correctable through annual reductions in benefits from most of the same programs, especially the means-tested entitlements. Thus, most of its fiscal 1983 and 1984 proposals to reduce federal entitlement spending were aimed at these programs.[34]

This section discusses the current options to either generate more revenue for the above mentioned "other" entitlement programs or to reduce their outlays. As the Tables V-9 and V-10 show, there is little projected growth in these programs during the rest of the 1980's, assuming unemployment and inflation significantly decline. Such projections do not depend on any of the options to be discussed here, but instead provide projections demonstrating there is a pattern of expenditure stability already being developed, and suggests that at least some of the 1981 cuts were definite overkill. The options discussed in this section - some structural, some cosmetic - can significantly aid the accuracy of the projections in the tables. They, in addition, further demonstrate that Congress can definitely control some entitlements, particularly with structural changes. However, the essence of Congress' problems with entitlement uncontrollables has never been with most of the entitlements discussed in this section, but with the entitlement heavyweights. Only through structural strategies can that essential problem be effectively dealt with.

Current Options

There are five major options presently being considered to control effectively the entitlements relevant to this section: modifying and adjusting federal pension structures, providing additional trust fund revenues taxing certain program benefits, more efficiently targeting program aid to those most in need of it, and resolving program redundancies.

A. Restructuring military retirement benefits has become a rather consistent argument recently. These benefits cost $15 million in 1982, and presently this system offers substantial cash payments for those retirees with 20 or more years of service, but virtually no benefits for nondisabled

TABLE V-9: FEDERAL OUTLAYS FOR "OTHER ENTITLEMENT" PROGRAMS
(In billions of dollars)

Major Program	Actual 1980	Actual 1982	Estimated 1983	Baseline Projection 1984	1985	1986	1987	1988
Benefits for Individuals								
Non-Means-Tested Programs								
Unemployment Insurance	16.4	24.3	33.0	27.8	26.5	26.1	25.9	25.6
Trade Adjustment Assistance	1.7	0.1	0.1	0.1	a/	a/	a/	a/
Veterans' Compensation	7.4	9.3	9.9	10.2	10.6	10.9	11.2	11.3
Black Lung	1.8	2.0	1.8	1.8	1.8	1.8	1.8	1.8
Railroad Retirement b/	4.7	5.3	5.7	5.9	6.0	6.2	6.3	6.4
Means-Tested Programs								
AFDC c/	7.3	8.0	8.1	8.4	8.5	8.8	9.1	9.5
SSI d/	6.4	7.7	8.6	7.4	8.1	8.4	8.6	9.6
Veterans' Pensions	3.6	3.9	3.8	3.7	3.7	3.6	3.5	3.5
Food Stamps e/	9.1	11.0	12.4	12.2	12.5	13.1	13.5	13.8
Partially Means-Tested Programs f/								
Guaranteed Student Loans	1.4	3.0	2.5	2.6	2.9	2.8	2.6	2.5
Child Nutrition	4.7	4.4	4.6	4.9	5.2	5.4	5.7	6.0
Public Service Grants for States and Localities								
General Revenue Sharing	6.9	4.6	4.6	4.7	5.0	5.2	5.5	5.7
Title XX Social Services	2.8	2.6	2.5	2.5	2.6	2.7	2.7	2.7
Total	75.5	87.4	97.6	92.2	93.4	95.0	96.4	98.4

a. Less than $50 million.

b. About 60 percent of outlays for Railroad Retirement provide Social Security benefits for retired railroad workers.

c. AFDC estimates include the Child Support Enforcement program.

d. Fiscal years 1983 and 1988 include 13 months of benefits; fiscal year 1984 includes 11 months.

e. Estimates include nutrition assistance for Puerto Rico.

f. These programs, while partially means-tested, do serve some higher-income households.

SOURCE: CBO, Deficit, '83, p. 118.

TABLE V-10: BUDGETARY OUTLAYS AND RECEIPTS FOR FEDERAL CIVILIAN COMPENSATION (In billions of dollars)

Major Program	Actual 1980	Actual 1982	Estimated 1983	Baseline Projection 1984	1985	1986	1987	1988
				Gross Outlays				
Pay	44.4	51.0	53.2	56.1	59.0	61.9	64.9	68.1
Civil Service Retirement	14.7	19.5	21.2	22.8	24.4	26.4	28.3	30.2
Other Benefits a/	4.9	6.6	8.3	10.1	12.1	14.3	17.0	20.2
Total	64.0	77.1	82.7	89.0	95.5	102.6	110.2	118.5
				Receipts and Collections				
Civil Service Retirement	5.2	5.8	6.0	6.2	7.0	7.5	7.7	8.0
Other Benefits a/	2.4	3.6	4.4	5.4	6.4	7.6	9.0	10.7
Total Offsets b/	7.6	9.4	10.4	11.6	13.4	15.1	16.7	18.7
				Net Budget Impact				
Total	56.4	67.7	72.3	77.4	82.1	87.5	93.5	99.8

a. Includes group health plans, life insurance, and workers' compensation.

b. Includes contributions from federal employees and off-budget agencies, which represent federal revenues and offsetting receipts, respectively.

SOURCE: Ibid, p. 187.

retirees with less than the 20 years.[35]

The one-half COLA adjustment for younger retirees through 1985, previously mentioned, was one general response to this argument. Other options would include: (a) making that half-COLA adjustment permanent, (b) providing a single catch-up annuity adjustment for military retirees once they reach 62 to partially compensate for any inequities caused by this permanent change, (c) providing some selected benefits for 62-year-old retirees with at least 10 years of service, and (d) basing retirement benefits on a retirees' three highest pay years.[36] Combined, these other options would save an estimated $1.9 billion between 1984-88. Advantages of these combined effects would include improving military personnel management efficiency, increasing the retention of non-senior career staff, and discouraging early retirement while achieving the above savings. Disadvantages include a substantial risk of damaging the morale of active duty personnel and motivating a compensatory increase in reenlistment bonuses and other special outlays.[37]

For reducing retirement costs for federal civilian personnel there are three major strategies currently under consideration: modification of Civil Service Retirement benefits for all new retirees, instituting fixed-rate individual retirement plans for all new employees, and rescinding the overcompensation for pre-1977 retirees.[38]

Benefits can be modified by gradually reducing the earned amount for pre-65 retirees no matter what their length of service. Currently retirees are eligible for full benefits at 55 with 30 years of service, or at 60, with 20 years. Another such reduction device is the gradual institutionization of calculating a retiree's benefit levels from averaging his 5 highest earnings years rather than his 3 highest years as is presently done. Benefits can also be modified by changing the formula for survivor's benefits to incorporate retiree age variations, and by limiting COLAs for both new and current beneficiaries to 33% of the CPI for retirees younger than 62, and 70% for those 62 and older. Together these options can account for an estimated $1.7 billion in budget authority savings between 1984-88, and nearly $6 billion in outlays (see Table V-11).[39]

Using a fixed-rate plan would solve one of the vexing dilemmas of pension plans -- the costs of the pensions usually far exceeding the combined employer/employee contributions to them. Currently the difference is paid through government appropriations. Under a fixed-rate plan, agency contributions would be raised to a specified level and separated from employee contributions into interest-bearing accounts (e.g. U.S. Treasury Securities) applicable to new employees only.[40] The full government appropriations contribution would then be restricted to employees with a minimum time of participation in the fixed-rate system (e.g., 5 years, 10 years, etc.). Besides the balancing of contributions to benefits, fixed-rate plans encourage the decline of short term and before-age-62 employees from withdrawing their benefits/contributions on the one hand, as opposed to accepting a deferred annuity beginning at age 62, thus increasing the number and percentage of retirees to receive government annuities. On the other hand is the reduction of both the costs of government contributions as a percent of employee payrolls and the actual benefits accruing to career employees.

Concerning pension overcompensation for pre-1977 retirees, between 1970-1976, the COLAs for the CSR system were legislated to include 101%

TABLE V-11: BUDGET SAVINGS FROM STRATEGIES TO REDUCE PAY AND PENSIONS FOR FEDERAL CIVILIAN EMPLOYEES (In billions of dollars)

Options	1984	1985	1986	1987	1988	Cumulative Five-Year Savings
Freeze 1984 Pay and Pension Adjustments						
Budget Authority	2.6	3.4	3.6	3.6	3.8	17.1
Outlays	2.9	4.0	4.2	4.4	4.6	20.0
Modify CSR Benefits						
Budget Authority	--	0.2	0.4	0.5	0.7	1.7
Outlays	0.2	0.6	1.2	1.7	2.3	5.9
Revamp CSR System						
Budget Authority	-0.1	-0.3	-0.5	-0.7	-0.9	-2.5
Outlays	--	0.1	0.2	0.3	0.3	0.9
Adjust Certain CSR Annuities for Past Overcompensation						
Budget Authority	--	0.1	0.2	0.3	0.4	1.0
Outlays	0.1	0.2	0.5	0.8	1.0	2.6

NOTE: Totals may not add because of rounding.

SOURCE: CBO, <u>Deficit, '83</u>, p. 191.

of the changes in the CPI. Effective 1977, that additional 1% adjustment was rescinded but not retroactively. The strategy for correcting this and associated imbalances (short of a direct retroactive rescission) calls for a temporary reduction of such COLAs to ½ the changes in the CPI until the affected benefits are in line with current retirement provisions. The estimated savings by 1988 will be $1 billion.[41]

B. Additional trust fund revenues can be generated by expanding the tax base of trust fund programs, especially U.I. This social insurance program has recently been teetering on insolvency due to the combined impacts of the 1973-75, 1980, and present recessions. To counter this trend, the current $7,000 unemployment payroll tax base per employee could be tied to increases in the national average wages earned similar to the present practice employed with the tax base for Social Security. This would be opposed to the current practice of allowing U.I. benefits to rise based on a beneficiary's prior earnings and other adjustments, while the U.I. tax base remains moribund and out of synct.[42] This strategy could generate an estimated $900 million in increased revenues in 1984 alone, and $15 billion between 1984-88; generally cause revenues to increase as benefits do, and aid in the long term solvency and stability of the system. A major disadvantage could be the added increase in unemployment resultant from the expanded costs of labor associated with increasing the payroll tax base.[43]

C. A supplementary revenue-generating source is applying a tax to selected program benefits. This was mentioned previously for Social Security benefits and is currently under consideration for U.I. benefits, Railroad Retirement, Veterans' and Workers' Compensations benefits via federal income taxes. The revenues raised can then be earmarked for the specific trust funds whose programs were responsible for the increased individual income leading to the federal tax.

Taxing benefits would mainly be applicable to the social insurance programs, not the means-tested programs. U.I. benefits, for example, as previously mentioned, are already included in taxable income above $12,000 for individuals and $18,000 for couples. The currently proposed strategy argues for taxing all U.I. benefits in order to more comprehensively include incomes marginal to these thresholds. It is estimated that $6.6 billion in additional revenues in the years 1984-88, would result from this procedure, in spite of criticisms that this would increase the tax liabilities of moderate and low-income beneficiaries.[44]

Taxing 40% of Railroad Retirement benefits is aimed at decreasing the federal contribution to the program and resolving some of the contrasts between these benefits and private pension programs. Currently the R.R.S. receives worker contributions from over 400,000 employees and services over 1 million beneficiaries. Though technically a private pension fund, the R.R.S. is administered by the federal government, has some of its coverage overlapped with Social Security, and its benefits are tax free. The current strategy argues for taxing that portion of R.R.S. benefits which exceed the worker contributions and that are not substitutes for Social Security Income. Revenue generation from this strategy is estimated at $500 million in 1984 alone and $3.6 billion in 1984-88, and achieving these amounts would not regressively harm lower income beneficiaries.[45]

Veterans' Compensation benefits are also not now taxed. They are paid regardless of income from other sources to veterans eligible for service-related disabilities and range from $62/month for a 10% disability to $1213/ month for complete disability, plus other adjustments. Taxing such benefits would be aimed at those veterans most able to afford the added tax liability and would theoretically raise $1.1 billion in 1984, and $8.4 billion during 1984-88.[46]

Taxing Workers' Compensation benefits is aimed at the income loss payments, not the medical expenses category of this program. About 70% of workers' compensation payments are such income loss supplements whose amounts vary state-to-state. Advantages include eliminating the differences between the incomes of beneficiaries and the wages earned and taxed by a 'healthy' worker, and reducing the disincentive of disabled workers receiving income supplements to return to work as quickly as they are able. Disadvantages include increased hardship in states/ regions with lower disability rates and the discrepancy that would be established between tax-free court ordered disability compensation and taxed federal disability. It would raise an estimated $13.5 billion during 1984-88.[47]

D. Better targeting of aid to the neediest beneficiaries is a method of achieving outlay-savings rather than raising revenue. It was proven effective with the 1981 Reconciliation Act's impact on the majority of the means-tested programs, and is currently being considered for other entitlements such as the Guaranteed Student Loans, Child Nutrition, General Revenue Sharing and Veterans' Compensation programs.[48]

The major targeting strategy for the G.S.L. is the elimination of the federal in-school interest subsidy allowed students in the professions. Such students would be required to pay their own loan interests since their future high-income employment is more readily assumed. This would not save much -- only $500 million during 1984-88, -- and may make the G.S.L. arrangements too complicated for many lenders to continue participation in the program.

For Child Nutrition, the strategy is to eliminate the federal reimbursement for meals provided to non-poor children, particularly those from families with incomes at or above 185% of the poverty line.[49] An added advantage of this strategy, if it is one, is that a number of schools would drop the Child Nutrition program as a direct result of this strategy: some because it would decrease significantly the number of their enrollees participating in the program, and others because required reporting regulations would become too onerous. The estimated savings would be $270 million for 1984, and $1.5 billion cumulative for 1984-88.[50]

General revenue sharing, which currently provides unrestricted federal grants to counties, cities, and townships,[51] could be further limited to only local governments which demonstrate high fiscal stress with low fiscal capacity. The argument for this strategy is aimed at structurally eliminating the categorical entitlement of local governments viz-a-viz general revenue sharing, even though any added reduction in federal grants to local governments at this time, well-off or not, may severely cripple these government efforts to provide citizen services. The expected estimated savings if this option is enacted would be $1.1 billion in 1984, and $7.6 billion during 1984-88.[52]

The strategy option concerning Veterans' Compensation is to repeal legislation allowing cash payments to certain veterans with 30% or less disability, and retaining their health-medical benefits allowance. Additionally, there is an argument to eliminate the allowances for dependents of veterans with less than 50% disability. For the first strategy, expected savings are $1.8 billion in 1984, and $10.7 billion during 1984-88. For the accompanying strategy, there would be an estimated 1984 savings of $135 million. The major advantage of these two options, besides the money, are supposedly that they would induce veterans who can work to seek it, further reducing the federal government's financial responsiblity.[53]

E. The final major option is to eliminate or reduce federal program redundancies and inconsistencies. One corollary of this option is the termination of the Trade Adjustment Assistance program entirely, and it is contained in the current budget proposals for fiscal 1984. It would save only an estimated $50 million dollars for 1984.[54] Another corollary would be the reduction of special allowances to G.S.L. lenders, aimed at gradually reducing the lenders' yields to comparability with other market rates. It would save an estimated $300 million during 1984-88. A third corollary would be COLA delays for SSI and veterans' programs, similar to the COLA delays for Social Security. They would save an estimated $800 million in 1984.[55]

IV. The Farm Support Options

Federal outlays for the farm price support system was $11.6 billion in 1982, three times higher than in 1981. For 1983, outlays are estimated at nearly $18 billion, and projected to average over $6 billion through 1984-88 (see Table V-12).[56] International economic conditions, which are out of this country's capacity to control, have a great deal to do with those numbers. The government provides eligible farmers price support loans, purchases and direct cash payments to compensate for low farm prices mainly resultant from large crop yields, a weak world economy, and declining domestic consumption of milk products. The current strategies to reduce government expenditures for these programs were previously discussed in terms of the 1982 Reconciliation Act. In this section, the additional strategy options for further reducing government costs and restricting crop production for the future are reported.

The two major federal support reduction strategies are eliminating deficiency payments and capping the farmer-owned reserve level. Both options would save money but at the expense of significantly reducing the income for the farmers the programs are supposed to protect. Deficiency payments, for example, are government support payments for high export-crops -- wheat, feed grains, upland cotton and rice. Betweeen 1974-80, approximately 2.5 billion in such payments were made, $1.2 billion in 1981, and approximately $1.5 billion will be paid in 1982-83.[57] Eliminating them would save an estimated $5.5 billion between 1984-85. It is hoped that the few small farmers who benefit from

FEDERAL OUTLAYS FOR AGRICULTURAL PRICE
SUPPORT PROGRAMS (In billions of dollars)

Major Program	Actual 1980	Actual 1982	Estimated 1983	Baseline Projection 1984	1985	1986	1987	1988
Wheat	0.9	2.2	4.1	2.0	1.4	0.7	0.8	0.5
Feed Grains	1.3	6.4	6.1	3.1	2.6	1.5	1.3	1.1
Rice	-0.1	0.2	0.6	0.4	0.3	0.3	0.4	0.4
Upland Cotton	0.1	1.2	1.3	1.4	1.1	0.2	0.6	0.5
Tobacco	-0.1	0.1	0.1	0.1	a/	a/	a/	a/
Peanuts	a/	a/	a/	a/	a/	a/	a/	a/
Dairy	1.0	2.2	0.9	0.4	0.3	0.2	0.1	0.9
All Other	-0.4	0.3	4.5	1.6	1.7	1.6	1.5	1.5
Total	2.7	11.6	17.6	9.0	7.4	4.5	4.7	4.9

NOTE: Commodity program outlays shown in the above table are CBO baseline outlays. They are rounded to the nearest $100 million. A minus sign indicates a net receipt. This baseline does not reflect the implementation of the payments-in-kind program but does assume acreage control programs in effect during fiscal years 1984-1988 and assessments on milk marketings in fiscal years 1983-1987.

a. Indicates outlays less than $50 million.

SOURCE: CBO, Deficit, '83, p. 135.

these payments will be cushioned by offsetting payments from other commodity programs, but that is not at all certain. Fortunately, the bulk of these deficiency payments are made to large farmers and agribusiness producers, and thus they could probably survive the elimination of those payments.

The farmer-owner reserve is a stockpiling of certain crop commodities originally established to both help farmers stretch out their marketing periods during years of over-production, and to help consumers avoid abrupt food shortages and higher prices. At present approximately 3.5 billion bushels of wheat and feed grains are in the reserve at an annual storage cost of $0.6 billion. Capping this reserve system means prohibiting another 600 million bushels of 1982-83 wheats and grains from being stored, with an estimated outlay savings of $1.8 billion for the two years combined, before the offsetting costs of farmers taking out increased non-recourse loans and then forfeiting their crops to the government.[58] The end estimated savings will be closer to $210 million for both years combined, making this option seem like an exercise in futility. Farmers will lose income and the government will gain little budgetary savings.

Concerning the restriction of crop production, under current law the government can and does withhold payments to farmers who refuse to cut back on the percentage of designated acreage planted. It also pays farmers to divert designated acreage to other production. Both of these tactics are currently in use for 1982-83 crops in order to reduce overall crop production, increase farm prices and decrease the government's outlays for price supports.[59] The future strategy is mandatory acreage reduction since the present system is voluntary, wasteful, and inefficient. Farmers reduce only their least productive acreage usually, then find various other ways of receiving the benefits but still doing basically what they want. Under mandatory divert and reduce rules up to 25% of government designated acreage from each participating farmer would be affected. This would require specific congressional legislation, but is estimated to save $5.9 billion in 1984-85, if enacted.[60] This policy option would also mean a major, albeit temporary, increase in government intervention into the farming industry. Under the present administration, this is unlikely (see Table V-13).

Other reductionist strategies include eliminating the wool and mohair program, eliminating the honey-price support program, and putting the peanut program on a no net-cost basis. Together these terminations are estimated to save $794 million dollars between 1984-88.[61] However, this savings will be at the expense of also reducing farmer incomes with little other positive program interaction (see Table V-14).

Can Congress control entitlements other than the heavyweights and interest on the public debt? Yes, if it is willing to enact structural change legislation, including indexation adjustments, better targeting of beneficiaries, control program interaction, and make other efforts. However, the cost of such congressional action may be intolerably high if the very nature of the programs are changed and the beneficiaries are inordinately harmed.

Can the Social Security and Medicare/Medicaid entitlement spending be controlled? Yes, but only to a relative degree without structural reforms of their programs within the budget process. As long as, for example, Social Security funding is automatically tied to indexation, the accompanying inevitable rise in the number of beneficiaries will continue to cause grand increases in Social Security outlays and obligations. All three

TABLE V-13: BUDGET SAVINGS FROM BROAD REDUCTION STRATEGIES IN AGRICULTURAL PRICE SUPPORT PROGRAMS (In billions of dollars)

Strategy	1984	1985	1986	1987	1988	Cumulative Five-Year Savings
Reducing the Level of Federal Support						
Eliminate Deficiency Payments						
Budget Authority	--	--	1,935	3,540	3,580	9,055
Outlays	1,935	3,540	3,580	3,380	3,065	15,500
Cap the Farmer-Owned Reserve						
Budget Authority	--	--	110	--	--	110
Outlays	110	--	--	--	--	110
Reduce the Level of Dairy Price Support a/						
Budget Authority	--	--	-985	-290	60	-1,215
Outlays	-985	-290	60	200	1,135	120
Restricting Crop Production						
Budget Authority	--	--	450	5,490	1,660	7,600
Outlays	450	5,490	1,660	1,485	985	10,070

a. Minus sign indicates an increase as compared with the baseline.

SOURCE: CBO, Deficit, '83, p.140.

TABLE V-14: BUDGET SAVINGS FROM TARGETED REDUCTION STRATEGIES IN AGRICULTURAL PRICE SUPPORT PROGRAMS (In millions of dollars)

Options	1984	1985	1986	1987	1988	Cumulative Five-Year Savings
Eliminate the Wool and Mohair Program						
Budget Authority	--	65	76	85	92	318
Outlays	65	76	85	92	96	414
Eliminate the Honey Price Support Program						
Budget Authority	--	--	33	36	38	107
Outlays	33	36	38	40	41	188
Place the Peanut Program on a No-Net-Cost Basis						
Budget Authority	--	--	38	38	38	114
Outlays	38	38	38	38	38	190

SOURCE: CBO, Deficit, '83, p. 145.

of these large entitlements remain too dependent on the ebb and flow of the economy and the fluctuations in the cost of living for other than undisciplined expenditure increases to continue in both the short and long runs. Unfortunately, the majority of the current strategies considered here seek essentially cosmetic changes--singularly or in combination--in these programs, rather than confronting the basic structures of the Social Security and health care systems in this country. All of the available evidence indicates these entitlements will continue to grow unrestrained in the future (if they do not become insolvent first) without fundamental structural revisions in their makeup.

As shown by the discussion of the present and immediate-future strategies now being considered for controlling entitlement spending, individually each program can have modifications implemented which will result in some savings, based on either optimistic or pessimistic economic assumptions. However, in almost all cases (the entitlement heavyweights and others) the growth rate of spending for the programs are barely affected, and entitlement spending overall does not reverse its long-term expansion with the non-structural strategies suggested. Even the structural alterations will have difficulty effecting control for Congress over entitlement spending because of the present unpredictabilities and uncertainties inherent in our economic system. But the structural changes through the budgetary process offer the only viable probability now and for the future for Congress to gain the fiscal control they currently lack over entitlement spending.

CHAPTER VI: CONCLUSIONS

On April 20, 1983, President Reagan signed into law PL 98-21, the Social Security Reform Act.[1] The legislation contained all of the recommendations previously issued by the National Commission on Social Security Reform, plus a few congressional additions, including a fundamental change in the retirement age from 65 to 67 by the year 2027, and a new accounting arrangement with the general Treasury. The bulk of the Act's provisions are intended to raise revenues and broaden the base of Social Security participation so that the system is kept solvent for the short-term, and is re-established for the long-term.

None of the more radical structural options discussed in Chapter V for controlling Social Security expenditures--eliminating the 1983-84 COLAS, or freezing them through 1988, for example--was enacted in the reform legislation, since the aim was to save the system, not reduce spending for it. But in spite of that, some of the enacted changes were fundamental, structural transformations in benefit levels, age requirements, and eligibility characteristics.[2] Because of that and the fact that some of the Act's provisions will result in benefit cuts for retirees and, in effect, small cuts in future Social Security outlays, a cogent argument can be made that the Reform Act was at least an effective beginning to the establishment of governmental control of the future growth of Social Security spending. These fundamental changes include taxing one-half of the benefits for higher-income recipients, which while primarily aimed at the approximately 40% of the Social Security elderly who currently pay income taxes, will eventually affect the vast majority of Social Security beneficiaries who receive other income. They also include eliminating the windfall benefits accruing to workers who participate in the Social Security system for only a short time, the changing of the retirement age previously mentioned, and broadening the base of mandatory participation in the system (rather than voluntary, as it had been) to all new federal workers, all members of Congress, the president and vice-president, and all federal judges. All of these, plus the permanent shift of the COLA benefit to January, will produce outlay savings (see pages 77, 82-84 in the text), some primarily for the short-term (the next 5-7 years), and some, like the taxing of higher-income recipients, for the long-term.

Coupled with the Act's stipulations for mandatory participation in the Social Security system by the approximately 1 million non-profit organization employees, the prohibition of state and local government employees from withdrawing from the system, and the new accounting procedure with the general Treasury--all virtually guaranteeing consistent increases in the trust fund revenue base--Social Security expenditures have at least been made more controllable , if not more controlled. Given the context and the vigor of the political fight which was necessary to achieve even these relatively mild, but very important changes in the Social Security system, the Reform Act can be seen as one small but positive step--perhaps the first stage of a longer process-- in the direction of controlling spending for the biggest entitlement program of all.

The Reagan administration seems convinced, if but few others are, that the reforms, at least the ones based solely on the commission's recommendations, will help in the struggle to discipline entitlement spending. Tables VI-1 and VI-2 show the administration's projections (based on the assumptions shown in Chapter V) for future entitlement expenditures, and the effect on Social Security spending of implementing the commission's recommendations.

TABLE VI-1: The Reagan Budget Proposals for Selected Entitlements, Fiscal '84

(In Billions)

	1982	1983	1984	1985	1986	1987	1988
General							
Social security	$154.1	$168.3	$178.2	$191.8	$205.9	$223.1	$236.8
Medicare	46.6	53.0	59.8	67.5	74.5	83.4	93.1
Civil service retirement	19.4	20.9	22.2	23.1	25.0	26.5	28.1
Military retirement	14.9	16.1	16.8	17.4	18.4	19.3	20.1
Other retirement	7.7	7.9	7.4	6.8	7.7	7.3	8.0
Total	**$242.7**	**$266.2**	**$280.4**	**$306.6**	**$331.5**	**$359.6**	**$386.1**
Total as a share of GNP	**8.0%**	**8.3%**	**8.0%**	**8.1%**	**8.0%**	**8.0%**	**7.9%**
Low-income							
Medicaid	$17.4	$19.4	$20.9	$23.2	$25.4	$27.9	$30.6
Unemployment compensation	23.8	36.9	28.8	25.9	24.7	23.7	22.5
Food stamps	11.0	12.8	11.7	11.6	11.8	NA	NA
Child nutrition	4.6	5.0	4.6	4.7	4.8	NA	NA
Supplemental security income	7.7	8.8	7.8	8.6	8.7	NA	NA
Aid to families with dependent children	8.0	8.2	7.5	7.4	7.5	NA	NA
Total	**$72.5**	**$91.1**	**$81.3**	**$81.4**	**$82.9**	NA	NA
Total as a share of GNP	**2.4%**	**2.9%**	**2.3%**	**2.1%**	**2.0%**	NA	NA

SOURCE: The Budget of the U.S., Fiscal 1984, Office of Management and Budget; The National Journal, Vol. 6, February 5, 1983, p. 271.

TABLE VI-2: The Reagan Projected Impact of the National Commission's Recommendations on Social Security Spending

(In Billions)

	1984	1985	1986	1987	1988	Total
OUTLAY REDUCTIONS	$4.0	$4.4	$4.7	$5.1	$5.4	$23.6
REVENUE INCREASES	8.3	5.6	8.9	10.7	22.3	55.7
TOTAL SAVINGS	$12.2	$10.0	$13.6	$15.8	$27.7	$79.4

SOURCE: The National Journal, Vol. 6, Feb. 5, 1983, p. 271.

Although not technically passed as a fiscal 1984 reconciliation measure, the Reform Act was decidedly a part of the larger congressional budget process. Substantial action on Social Security had been deferred during the budget discussions for fiscal 1982, after Congress had rejected President Reagan's requests for Social Security cutbacks. The passage of the Act for fiscal 1984 is thus a culmination of that earlier postponement.

In addition to its provisions concerning Social Security, the Reform Act also mandated the replacement of the existing Medicare procedure for hospital cost reimbursement by a costs-determined-in advance procedure based on standardized rates for specific kinds of patient treatments and conditions. This replacement is designed to motivate hospitals and medical facilities to reverse their uncontrolled increases in medical care expenses.[3] The Act eliminated eligibility for Unemployment Insurance benefits for non-professional employees of educational institutions during their summer hiatus or other between term layoffs, when those employees are reasonably certain to go back to work at the same institution, among other UI adjustments. It also permanently shifted the COLA for Supplemental Security Income beneficiaries to January.

These, and other combinations of structural and cosmetic adjustments, though they are mainly modest-to-conservative changes, generally support the thesis set forth in this paper. None of these changes by themselves or even grouped together will turn the tide against uncontrollable entitlement spending, but they do represent a solid beginning attempt, and should be furthered as effective means toward the larger end of congressional control of entitlement outlays growth.

In summary, this thesis has examined entitlements as they are related to the federal budget process and outcomes. It has defined exactly what entitlements are, their nature within the budgetary process, the major budgetary problems with entitlements, and Congress' current and immediate future strategy options to deal with entitlements as part of Congress' continuing package of budget uncontrollables. All of this has been necessary to explore the major question posed by this paper: Is Congress capable of controlling entitlement spending?

Control, in this thesis, has been defined as congressional ability, under current law and the present structure of the budgetary process, to enact effective constraints on the growth of federal spending for entitlement programs. It is not seen as an issue of entitlement spending growth versus no growth. Instead, the issue is undisciplined, unrestrained growth versus the controlled, balanced growth of such spending. This thesis has argued that without structural changes in the way entitlements now fit within the budgetary process, Congress cannot control entitlement spending. It is not just a lack of collective congressional will to tackle continued increases in entitlement spending that is the issue, but rather a lack of real--as opposed to theoretical--structural capacity by Congress to constrain the growth of entitlement spending.

The thesis has explored this central theme by emphasizing:

1. Entitlements, within the present federal budget, are special status, relatively permanent programs providing benefits to eligible individuals and governments who meet specified eligibility criteria. Entitlements provide benefits to help eligible clients offset income losses to help those unable to care for themselves, to make higher education, medical services and retirement income accessible to eligible recipients, etc. Currently

there are some 35 major entitlement categories, and approximately 70 individual entitlement programs.

2. Within the budgetary process, once Congress officially authorizes a program as an entitlement, the program becomes virtually self-perpetuating and its funding automatic. The Appropriations process becomes ineffective in constraining entitlement program outlays, since the original authorizing legislation specifies eligibility criteria, as-needed budget authority, and other characteristics which obligate the government to finance the program based on factors beyond congressional control (e.g., the rise in the elderly population, high unemployment, etc.).
3. There are three structural components associated with virtually every entitlement program: indexation, program interaction and the number of beneficiaries. They singly and in combination, are most responsible for the lack of congressional control over increased entitlement spending.
4. There are currently only two viable options available for Congress to overcome its lack of control over entitlements: the reconciliation procedure within the budgetary process, and structural changes in the nature of entitlements within the budgetary process. Both possess important advantages and disadvantages, the latter being more dominant when either option is considered individually. In combination, the two options offer the best probability for Congress to finally gain control over consistently increasing entitlement spending.
5. Currently and for the immediate future, though many reform-intended strategies exist to reduce federal entitlement outlays

and gain control over the impact of such outlay spending on the federal budget deficit, without the implementation of structural change plans within the budgeting process, the other strategies are destined to make only minor alterations in annual entitlement increases in spending. In effect, massive federal obligations for entitlements will remain unconstrained, undisciplined and uncontrolled.

Is Congress currently capable of controlling entitlement spending? As shown particularly in Chapter V, Congress does not now have the capacity, without enacting major structural changes in either the original legislated authorizations or associated laws, to impose consistent, long-term fiscal discipline on the Social Security entitlement, Medicare and Medicaid, farm price supports, interest on the public debt, and, to a certain extent, unemployment compensation--the entitlements which for long have dominated government entitlement expenditures. Continued adherence to convenient but non-structural and essentially cosmetic adjustments will continue to result in the habitual frustrating consequences: an out-of-control budget deficit and continued instability, heightened uncertainty and unrestrained, automatic growth in entitlement outlays. And yes, Congress does have the capacity to control most of the means-tested programs, the GSL Program, General Revenue Sharing, and Veterans' Programs, though to date there has been a very inconsistent demonstration of this capacity because of a persistent lack of will (as defined by the continuing existence and clout of entitlement client groups, for example, maintaining the political lack of congressional motivation or willingness to either enact long-term fiscal restraints or dismantle entitlement programs).

What capacity Congress does have relative to controlling entitlements virtually depends on its effectively confronting, at the very least, the basic entitlement factors of indexation, interaction and number of beneficiaries through its reconciliation/budget process. And whatever conrols Congress tries to employ will also be heavily impacted by the prevailing state of the nation's economy.

The governmental triumph called the Social Security Reform Act of 1983 should be considered as at least one model of a successful beginning strategy which can eventually lead to congressional control of entitlement spending. Approval of the Act demonstrated the potential of the kind of bipartisan political support which will be necessary to attain that control.

For Congress indeed can control the growth of entitlement spending in the federal budget. Hopefully it will decide to do so in ways which will neither substantively gut present entitlement programs nor continue to over-target the means-tested programs designed to help the poor. There is an imperative to gain such control and soon. Otherwise, there is a very real danger of budget uncontrollables, especially entitlements, actually becoming the entire budget.

FOOTNOTES

FOOTNOTES

Chapter 1: INTRODUCTION

1
See the Congressional Budget Office publication, Balancing The Federal Budget and Limiting Federal Spending: Constitutional and Statutory Approaches (Washington, D.C.: U.S. Government Printer, September, 1982),p. 9. Cited hereafter as CBO, Balancing the Budget, 1982.

2
Although separated here, all of these elements are also included in several comprehensive definitions of entitlements. One such definition is used within this thesis.

3
Dennis Ippolito, Congressional Spending (Ithaca: Cornell University Press, 1981), p. 211; Harrison Donnelly, "Special Report: Entitlements," in Congressional Quarterly, February 6, 1982, p. 195.

4
CBO, Balancing The Budget, 1982, op. cit. pp. 22-23. Depending on what one includes in entitlements, other arguments identify the current entitlement percentage of total outlays as 60.8%. See Donnelly, op.cit.

5
Allen Schick, Congress And Money: Budgeting, Spending and Taxing (Washington, D.C.: Urban Institute, 1980), pp.26-27, 392.; Joel Havemann, Congress and the Budget (Bloomington: Indiana University Press, 1978), pp. 29, 150, 169.

6
Donnelly, op. cit., pp. 195-198.

7
John William Ellwood, Reductions in U.S. Domestic Spending (New Brunswick: Transaction Books, 1982).

8
Ippolito, op. cit.

9
Schick, Congress and Money op. cit.

10
Congressional Budget Office, Reducing the Deficit: Spending and Revenue Options - A Report to the Senate and House Committee on the Budget (Washington, D.C.: U.S. Government Printers, February, 1983), pp. 8, 119. This publication is extensively cited in this thesis as a crucial primary source. Hereafter it will be referred to as CBO, Deficit '83.

11
Ibid.

12
Congressional Budget Office, <u>Indexing With The Consumer Price Index: Problems and Alternatives</u> (Washington, D.C.: Government Printers, June, 1981), p. 27 This publication is also extensively used and cited, particularly in Chapter III.

13
CBO, <u>Deficit '83</u>, op. cit., p. 12.

14
Donnelly, op. cit., pp. 183-194.

15
For the record, though it is prominently mentioned in the chapter on program interaction and elsewhere in the thesis, the Food Stamps program is not a technical entitlement. It was stripped of its entitlement status in 1977 and it has not been reactivated. It does, however, continue to be treated as a *de facto* entitlement program though it is theoretically subject to annual congressional appropriations.

CHAPTER II: WHAT ARE ENTITLEMENTS AND HOW DO THEY WORK?

[1]CBO, Balancing The Budget, 1982, op. cit., p. 25; Ippolito, op. cit., p. 214; Ellwood, op. cit., p. 23.

[2]Congressionally legislated programs are created through a 2-step authorizations process. Step 1 is the statutory establishment of the program and the rules and stipulations under which it will operate (program authorization). Step 2 is the establishment of either a specific or very broad 'limit' on the amount of money which Congress can appropriate for the program during its existence (authorization of appropriations). Subsequent to this authorization process is the annual or multi-year congressional enactment of budget authority levels for each program which is organized into one or more of the 13 appropriation acts passed by Congress each year. Through this procedure Congress funds the programs created and/or continued through the authorization process (although quite frequently continuing resolutions have to be enacted to maintain stopgap funding when Congress does not finish its business on time).

[3]Ellwood, op. cit., pp. 22-24.

[4]Ibid.

[5]Ippolito, op. cit., pp. 213-214; Ellwood, pp. 22-24. He lists three major models for congressional budgetary authority. A fourth could also be added since the early 1970's -- indexed appropriations.

[6]Congressional Budget Office, Welfare Reform: Issues, Objectives and Approaches (Washington, D.C.: Government Printers, 1977), p. 5.

[7]Ibid., pp 6-9.

[8]Ibid., pp. 9-15, Congressional Budget Office, The Administration's Welfare Reform Proposal: An Analysis of the Program for Better Jobs and Income (Washington, D.C.: Government Printers, 1978), pp. 38-39.

[9]CBO, Indexing, op. cit., pp. 23,26-27.

[10]As of fiscal year 1983.

[11]Ellwood, op. cit., p. 30.

[12]CBO, Deficit, op. cit., p. 97.

[13]Ibid., p. 134.

14 Ibid., pp. 116-117.

15 Ibid.

16 Schick, Congress and Money, op. cit., pp. 211-212.

17 Ibid., p. 215.

18 Public Law 93-344, July 12, 1974; Reproduced in Albert C. Hyde, Jay M. Shafritz, eds., Government Budgeting: Theory, Process, Politics (Oak Park: Moore Publishing Co., 1978), pp. 350-361.

19 Schick, Congress and Money, op. cit., pp. 205-207.

20 See excerpts from the Budget Act in Hyde and Shafritz, op. cit.

21 "In the early years of budget reform, the Appropriations Committee used this procedure (401(b)) to cut or kill only minor entitlements," and "The provision to curb entitlements..was too unwieldly to be effective," in Joel Havemann, Congress and the Budget (Bloomington: Indiana University Press, 1978),pp. 169, 146; See also, Schick, Congress and Money, op. cit., pp.400-401; Ippolito, op. cit., p.213.

22 Schick, Congress and Money, op. cit., pp. 400-401.

CHAPTER III: THE NATURE OF ENTITLEMENT SPENDING WITHIN THE BUDGETARY PROCESS--THE PRINCIPAL PROBLEMS IN CONTROLLING ENTITLEMENTS

1
Congressional Budget Office, Indexing with the Consumer Price Index: Problems and Alternatives (Washington, D.C.: Government Printers, June, 1981), pp. 11, 5. Indexation here refers to explicit as opposed to informal and implicit indexation.; General Accounting Office Report, A Consumer Price Index for Retirees and Alternatives for Controlling Indexing (Washington, D.C.: Government Printers, April 20, 1982), pp. 1-2.

2
Ibid.

3
CBO, Indexing, pp. 2,5.

4
Ibid., pp. 1-2.

5
There is a CPI-U, measuring price changes for urban consumers, and a CPI-W, for wage earners and clerical workers. See CBO, Indexing, op. cit., p. 32; Government Accounting Office (GAO) op. cit., pp. 4-8; GAO, Alternatives for Modifying the Indexation of Federal Programs (Washington, D.C.: Government Printers, March 10, 1981), pp. 1-5.

6
Ibid.

7
CBO, Indexing, p. 33.

8
An example was given that raising the federal support price for milk will eventually result in higher milk prices. The latter will be reflected in the CPI and thus trigger another adjustment rise in parity support prices. See CBO, Indexing, op. cit., pp. 33-34.

9
Donnelly, Congressional Quarterly, op. cit., p. 194.

10
CBO, Indexing, op. cit., p. 22; GAO, Alternatives, op. cit., pp. 6-10.

11
CBO, Indexing, op. cit., p. 30.

12
Ibid., p. 49.

13 GAO, Alternatives, p. 12-14.

14
Ibid.

15
CBO, Indexing, op. cit., p. 32.

16
Congressional Budget Office, Interactions Among Programs Providing Benefits to Individuals: Secondary Effects on the Budget (Washington, D.C.: Government Printer, May, 1982), pp. 1,3,37. The bulk of this section is based on that report.

17
Ibid., pp. XI-XII, 3,4.

18
Ibid.

19
Ibid.

20
Ibid.

21
Ibid.

22
Ibid.

23
Ibid.

24
Ibid.

25
Ibid.

26
Ibid., pp. 16-18.

27
Ibid.

28
Ibid.

29
Ibid.

30 Ibid.

31 Ibid.

32 Ibid.

33 Ibid.

34 Ibid.

35 Ibid.

36 Ibid.

37 Ibid.

38 Ibid., p. 117.

39 CBO, Deficits '83, op. cit., p. 119.

CHAPTER IV: CAN CONGRESS CONTROL ENTITLEMENTS WITHIN THE BUDGETARY PROCESS?--THE POTENTIAL OF RECONCILIATION

1 Allen Schick, Reconciliation and the Congressional Budget (Washington, D.C.: American Institute for Public Policy Research, 1981), p. 14.

2 John Ellwood, Reductions in U.S. Domestic Spending, op. cit., p.29.

3 Allen Schick, Reconciliation, op. cit.

4 Joseph Pechman, ed., Setting National Priorities, The 1983 Budget(Washington, D.C.: The Brookings Institute 1982) pp. 16-17, 20-21 and 232-233, in a chapter by Robert W. Hartman, "Making Budget Decisions."

5 Ippolito, Congressional Spending, op. cit., pp. 216-218. He says that entitlements should all be brought under the appropriations process to control them. This too, would be through reconciliation.

6 U.S. Congress, The Congressional Budget and Impoundment Control Act of 1974, reproduced in Albert C. Hyde and J.M. Shafritz, eds., Government Budgeting: Theory, Process, Politics (Oak Park: Moore Publishing Co., 1978), pp. 344-371. Technically, although the reconciliation instruction is regularly associated only with a budget resolution, it can be added to any concurrent resolution considered by Congress. See Schick, Congress and Money, op. cit., p. 218.

7 Ibid.

8 Congressional Appropriations for federal agencies to enter into obligations.

9 Spending outside of the appropriations process, e.g., indexed entitlements.

10 Schick, Reconciliation, op. cit., pp. 4-5, 13.

11 Budget Act, op. cit., p. 358.

12 Ibid., p. 357.

13 Schick, Reconciliation, op. cit., pp. 7-8.

14 Ibid.

15 Schick, Reconciliation, op. cit., pp. 15-16.

16 Ibid., p. 17.

17 Ibid., p. 15.

18 Ellwood, Reductions, op. cit., p. 29.

19 Ibid., p.30.

20 Schick, Reconciliation, op. cit., pp. 9,2,31.

21 Congressional Quarterly, December 6, 1980, p. 3487. The quote is attributed to Senator Henry Bellmon of Oklahoma.

22 Congressional Quarterly, July 5, 1980, pp. 1902-1903.

23 Congressional Quarterly, op. cit., December 6, 1980, p. 3488. The remaining data #2-6 is based on this article also.

24 Pechman, Setting National Priorities, op. cit., p. 233; Ellwood, Reductions, op. cit., p. 39.

25 CBO, Deficits '83, op. cit., p.9.

26 Ibid.

27 Ellwood, Reductions, op. cit., p. 28.

28 Ibid.

29 This discussion is based principally on Ellwood.

30 Ellwood, Reductions, op. cit., pp. 203-206.

31 Ibid., pp. 223-226.

32 Ibid., pp. 229-234.

33 Ibid., pp. 235-237.

34 Ellwood, Reductions, op. cit., pp. 259-262.

35 Ibid., pp. 263-264.

36 Ibid., pp. 277-279.

37 Ibid., pp. 287-292.

38 Donnelly, Congressional Quarterly, op. cit., p. 195.

39 Ellwood, Reductions, op. cit., pp. 297-303.

40 See the discussion in Donnelly, Congressional Quarterly, op. cit., pp. 193-196.

41 Congressional Quarterly, August 21, 1982, pp. 2047, 2045.

42 Ibid., p. 2048.

43 Ibid., p. 2049.

44 Ibid., p. 2050.

45 Ibid., pp. 2042, 2044, 2045; U.S. Congress, Tax Equity and Responsibility Act of 1982, Conference Report for HR 4961, August 17, 1982 (Washington, D.C.: Government Printers), Public Law 97-760, pp. 9-100.

46 Ibid.

47 Congressional Quarterly, op. cit., August 21, 1982, p. 2046.

CHAPTER V: CAN ENTITLEMENTS BE CONTROLLED UNDER THEIR CURRENT STRUCTURES WITHIN THE BUDGETARY PROCESS--PRESENT AND IMMEDIATE-FUTURE STRATEGIES

[1] CBO, Deficits '83, op. cit., pp. 64-65; National Commission on Social Security Reform (Washington, D.C.: Government Printers, January, 1983), Appendix J, pp. 1-15.

[2] Congressional Budget Office, Financing Social Security: Issues and Options for the Long Run (Washington, D.C.: Government Printers, November, 1982), pp. 5-7.

[3] Ibid; CBO, Deficits '83, op. cit., p. 64; National Commission, op. cit., Appendix J, pp. 1-15.

[4] CBO, Social Security, op. cit., pp. 5-7.

[5] CBO, Deficits '83, op. cit., pp. 64-65; National Commission, op. cit., Appendix J, pp. 1-15.

[6] CBO, Social Security, op. cit., pp. 7-9.

[7] National Commission, op. cit., p. 22.

[8] Ibid; In March, 1983, three months after the Commission issued its recommendations, Congress approved a compromise package of Social Security reforms which incorporated many of the Commission's suggestions and others. See Chapter VI for a further discussion of this point.

[9] Office of Management and Budget, Executive Office of the President, Major Themes and Additional Budget Details for Fiscal Year 1983 (Washington, D.C.: Government Printers, 1982), p. 37.

[10] CBO, Deficits '83, pp. 70-71.

[11] Ibid.

[12] Ibid., pp. 72-73.

[13] National Commission, op. cit., pp. 2-11; Also see Table IV-2.

[14] CBO, Deficits '83, op. cit., p. 74.

15 National Commission, op. cit., pp. 2-13; Also see Table V-1.

16 CBO, Deficits '83, op. cit., p. 76.

17 Ibid., p. 79.

18 Ibid.

19 Ibid.

20 Ibid.

21 Maximum DI benefits currently equal the smaller of 85% of the eligible worker's AIME, or 150% of the Primary Insurance Amount (PIA). The OASI maximum benefits are currently from 150% to 188% of a worker's PIA.

22 Total UI benefits for families with income above a specified limit are currently subject to taxation. Revenues from this source are not currently returned to UI's trust fund, however. See CBO, Deficits '83, pp. 80-81.

23 Ibid.

24 Ibid., p. 82.

25 Ibid., pp. 83-84.

26 National Commission, op. cit., pp. 2-8.

27 CBO, Deficits '83, op. cit., pp. 84-85.

28 TEFRA, op. cit., pp. 9-47, 48-76.

29 (See text) In the OMB analysis, Additional Themes, op. cit., p.42; Congressional Budget Office, Medicaid: Choices for 1982 and Beyond (Washington, D.C.: Government Printers, 1981), pp. 52-56.

30 CBO, Deficits '83, op. cit., p. 101.; See also CBO, Medicaid, op. cit., pp. 52-56.

31 These are especially aimed at Medicare costs. After the 1981 Reconciliation Act's transfer of more program flexibility and responsibility to states for Medicaid coverage, there are very few non-structural options left other than more of the same cutting of Medicaid costs without also changing the fundamental purpose of the Medicaid program.

32 CBO, Deficits '83, op. cit., p. 113.

33 Ibid., p. 117.

34 OMB, Additional Themes, op. cit., pp. 41-42; The U.S. Budget, Fiscal 1984, pp. 60-69.

35 CBO, Deficits ' 83, op. cit., pp. 117-120.

36 Under current legislation, this three year basing rule will go into effect by the year 2000. The advocacy here is for a much earlier enactment, thereby saving funds needed now. See CBO, Deficits '83, op. cit., pp. 56-57.

37 Ibid., p. 58.

38 Ibid., pp. 194-198.

39 Ibid.

40 Although some plans would also include current employers. Other variations in fixed-rate plans are based on the differences in contribution level provisions, how and where the funds will be invested, and the particular circumstances for allowing benefits. See CBO, Deficits '83, op. cit., pp. 196-198.

41 Ibid.

42 The UI tax base has only changed three times since 1940, when it was $3,000. See CBO, Deficits ' 83, op. cit., p. 122

43 Ibid.

44 Ibid., p. 123.

45 Ibid., pp. 123-124.

46 Ibid., pp. 125-126.

47. Ibid.

48 Ibid., pp. 128-130.

49 Equivalent to over $18,000 for a family of four in 1982. See Congressional Quarterly, February 6, 1982, op. cit., pp. 195-197.

50 CBO, Deficits ' 83, op. cit., p. 130.

51 Funding to state governments were eliminate in 1981. See Office of Management and Budget, The U.S. Budget in Brief, Fiscal 1983 (Washington, D.C.: Government Printers, 1982), pp. 31-32.

52 CBO, Deficits '83, op. cit., p. 130.

53 Ibid., p. 128.

54 However, in September 1983, Congress extended the life of this program for another two years. See Congressional Quarterly, October, 1983 op. cit., p. 2042.

55 Ibid.

56 Ibid., pp. 133-138.

57
Ibid.

58
Ibid., p. 141.

59
Ibid., p. 143.

60
Ibid., pp. 143-144.

61
The Mohair and Wool Program, $414 million; the Honey Program $190 million, and the Peanut Program $190 million. See CBO, Deficits '83, op. cit., pp. 144-146.

CHAPTER VI: CONCLUSIONS

[1]Congressional Quarterly, Vol. 41, 21, May 28, 1983, p. 1093.

[2]Congressional Quarterly, Vol.41 , 12, March 26, 1983, p. 596.

[3]Ibid., p. 599.

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