The FY 1984 Budget and Its Impact on Blacks

Overview

The Reagan Administration's economic program has resulted in increased unemployment, real interest rates and business and personal bankruptcies. Black Americans traditionally unemployed and underemployed have suffered untold hardships as a result of the Reagan Administration's economic program. The latest unemployment figures reveal an all time high of 20.8% unemployment for blacks with 45.7% of black youth unemployed.

The admission by the Administration of the use of high unemployment to control inflation is small comfort to the millions of Americans, a disproportionate number of whom are black, standing in cheese, butter and soup lines stalked by despair, humiliation and loss of hope for basic survival.

Unemployed heads of households in the black community can take small comfort from promises of a strong economy some time in the future when they are faced with the here and now problems of food, clothing and shelter. The Administration can not, on the one hand, take credit for reducing inflation (which has declined due, in significant part, to reduced energy prices and a monetary policy that has pushed our economy to a near depression) and on the other hand, place the blame for unemployment and the recession (a depression for black Americans) as well as budget deficits, on previous Administrations.
Regardless of its unwillingness to accept blame for the current recession, the Administration is not taking action to effect a speedy recovery or alleviate the suffering of unemployed and low income people caused by the depressed economy. Nor is it providing necessary aid to deal with the structural unemployment affecting workers in many industries.

Minorities are suffering greater hardships because (1) their incomes are lower (43% of blacks earn under $10,000 per year; over 30% live in poverty compared to 8.8% for white families; median family income for blacks is only 56% that of whites); (2) unemployment in black communities is twice that of whites and is nearly 50% for black youths; (3) the opportunity to supplement income through second jobs and increased work effort has been severely reduced due to the unemployment and underemployment of American workers; (4) a lack of training is affecting reemployability, especially for the structurally unemployed; (5) benefits in government-sponsored programs have been reduced and eligibility restricted.

The economic gap between black and white Americans has deepened under the Reagan Administration's economic program which, though promising prosperity, has brought increased hardships for the poor while increasing tax breaks and subsidies for the wealthy.

While there are increasing signs of the beginning of an economic recovery, one should not lose sight of the fact that economic growth alone will not improve the economic plight of black Americans.

In the 1960's, during an unusually long period of sustained economic growth, blacks made some progress in reducing the income gap between the races; however, the intermittent growth of the 1970's allowed the gap to widen. The difference between black and white income was smallest in 1967, when black income rose to 61% of white income, but by 1981 it had dropped back to 56%, lower than the 1960 level of 57%.
Economic growth, while essential to the future of all Americans, is especially important to minorities because minority employment grows faster than average during expansion and contracts more severely during recessions. Economic growth is an essential requirement for the improvement of black incomes, but is not, by itself, a sufficient condition for the economic well-being of blacks.

The record of the past 25 years shows that black unemployment rates at the peak of prosperity were higher than white unemployment rates during the depths of the preceding and following recessions. During periods of high economic growth, additional efforts are needed to remove all obstacles so that blacks can fully participate in the benefits of such growth and achieve employment rates comparable to those of whites.

A most disturbing aspect of the inability of past economic growth to improve the status of minorities is shown in the plight of black teenagers who have rapidly fallen behind their white counterparts in private employment and who, over a 25-year period of economic growth, have been largely excluded from participating in the labor force. Black youth unemployment has hovered around 50% for more than a year.

The immediate hardship of the loss of teenage work experience and income appears to be only a part of the losses being inflicted on black youth. This loss of experience has a long-term effect of reducing the future earnings of minorities and appeared for the first time in the seventies when the employment-to-population ratio for black youths aged 20-24 started to decline significantly. If this trend among 20-24 year olds continues, it will mean that teenage unemployment is a handicap which will affect a person's earning capacity throughout his/her career and will contribute to a further widening of the gap between black and white incomes.
Finally, the level of economic growth experienced in the 1970's was unable to reach a significant number of those in poverty. The economic growth of the 1960's was able to reduce the percentage of both black and white families living in poverty. However, the percentage of both black and white families in poverty did not change significantly during the 1970's and stagnated in a situation in which a black family, in 1981, was three times as likely to be trapped in poverty as a white family.

These facts clearly demonstrate that economic growth alone will not be sufficient to improve the economic status of blacks and that provision must be made for unemployment resulting from government policies and from recessions, and, as a matter of right, for the care of those unable to find jobs even when the economy is at full employment.

In analyzing the Administration's FY 1983 budget, the NAACP recommended three criteria against which it should be evaluated. We believe these criteria are equally valid in evaluating the FY 1984 budget:

1. Does the proposal reduce unemployment and provide mechanisms to prevent future unemployment?

2. Does the proposal protect individuals against the inadvertent and uncontrollable unemployment and poverty resulting from business cycles and the inability of government policies to achieve full employment?

3. Does the proposal provide for those who, even at full employment, are unable to work?

The President's FY 1984 budget proposal fails on all three counts. The FY 1984 budget proposal contains no effort to reduce unemployment. It continues to rely on a discredited supply-side economic theory.
The budget proposal:

- significantly reduces job training programs;
- limits investment in education programs at all levels;
- reduces the federal role in human investment programs such as education, health, nutrition and job training; and
- reduces AFDC, Food Stamp and Medicaid benefits so essential for the "truly needy".

The Reagan Budget "Freeze"

The FY 1984 budget continues on the same course as the FY 1982 and 1983 budgets recommending huge reductions in domestic spending, substantial increases in military spending and patently blind reliance on supply-side tax reductions.

A budgetary freeze typically means holding funding levels constant with no inflation adjustment and thus negative real growth. However, the Reagan Administration proposes to increase total spending to include the cost of inflation. It does not propose to hold total federal spending constant except for nondefense discretionary spending.

Since the Administration's budget shows a modified "freeze" only for aggregate spending, many programs are drastically reduced while others are increased, but few programs are "frozen".

Proposed cuts in programs for low income people are much deeper than Administration rhetoric implies. Total FY 1984 appropriations for all major means-tested programs would fall $13 billion below FY 1983 levels and $30 billion below FY 1981 levels. After adjusting for inflation, this means a reduction of 19% below FY 1983 levels and 40% below FY 1981 levels.

The cuts proposed for low income entitlement programs would deepen substantially each year. Reductions in Food Stamps, Child Nutrition, AFDC, SSI, subsidized housing, rent subsidies and Medicaid total 1.8
billion in FY 1984 but would increase to $4.6 billion by FY 1988, a 155% increase while inflation is projected to rise 19% over the same period.

Of the $43.3 billion total proposed increase in federal outlays for FY 1984 compared to FY 1983, $30.5 billion is increased defense spending.

Job Training

Federal job training and employment programs were initiated because normal market mechanisms were unable to deal with cyclical and structural unemployment. Such programs are intended to improve, through training, subsidized employment, counseling, and related activities, the labor market position of those worst off.

The federal government has an important role in job training and employment stimulation. Job training programs are essential when normal market mechanisms are unable to deal with cyclical and structural unemployment. A failure to provide training, subsidized employment, counseling and related activities deprives millions of the unemployed, particularly youth, of the requisite job skills they must have to become productive workers.

The Administration has abrogated its responsibility by failing to focus on unemployment as a major problem - both in human terms and in terms of budget impact.

The Reagan budget would:

- reduce total funding for training and employment by 37.9% below what current law would provide in FY 1984.
- eliminate the Older Workers Program, which provides approximately 58,000 older workers with part-time jobs.
- eliminate the Work Incentive Program (WIN) which provides job services, training and public service employment to AFDC recipients.
reduce Summer Youth Employment funding by 11.7%. This reflects the Administration's proposal to pay a $2.50 per hour subminimum wage.

The Administration does propose a significant increase in the Dislocated Workers Program from $50 million in FY 1983 to $240 million in FY 1984, but this increase is more than offset by reductions in other training and employment programs.

Education

A significant portion of structural unemployment is related to inadequate education programs which have not prepared young people for a productive role in the workforce. Because many states were abrogating their responsibility to provide equal education opportunity to minority and disadvantaged students, federally funded targeted education programs were initiated to increase the national investment in young people.

Education is so closely linked to employment opportunities, job performance, productivity, and economic growth that the well-being of the nation is at stake unless the requisite support of public schools is continued and enhanced. Yet, apparently because it does not recognize federal education funding as an investment in our youth, the Administration is proposing further cutbacks in funding.

The Administration proposes:

- a 14.4% reduction in funding for all education programs.
- an 8% reduction for elementary and secondary education. Higher education funding is proposed at the same level as the FY 1984 level under current law.
- a 10% reduction below the FY 1984 current policy level in Title I aid to disadvantaged students. (The budget reflects an Administration plan to give state and local education agencies the option of converting Title I to a voucher system.) Of the recipients of this aid, 51% are white, 29% are black and 16% are Hispanic.
- a 16% reduction for the Chapter II Block Grant which in 1981 consolidated over 40 categorical education programs into a block grant to states.
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- to consolidate vocational and adult education into a block grant (a similar plan was proposed and rejected last year) and reduce funding by over 40% from the current policy baseline for FY 1984.

- a new $50 million block grant to states for math and science teacher training. (While such a program is needed, the amount proposed is much too small.)

In addition, the FY 1984 budget includes tuition tax credits for parents who send their children to private schools. The NAACP opposes tuition tax credits as unconstitutional and as detrimental to public education. The bulk of black students would not benefit from a tuition tax credit plan, which would offer an incentive for parents to send their children to private and parochial schools. Since 43% of black families earn less than $10,000 per year, a private education would be precluded even with a tuition tax credit. Only 2.7% of families earning less than $5,000 annually sent their children to private/parochial schools as compared to 27.1% of families earning over $25,000.

The inevitable result of tuition tax credits would be an erosion of the public school system leading to a dual education system: private education for the advantaged, public education for the disadvantaged. The NAACP believes that the over $1.5 billion tax expenditure for tuition tax credits for FY 1984-1986 should instead be devoted to improving public education.

For higher education student assistance, the current system of grants and loans would be significantly altered. In general, Pell Grants, National Direct Student Loans, State Student Incentive Grants and Supplemental Education Opportunity Grants would be replaced by a new "Self-Help" grant. Under this new plan, students would be required to provide a minimum of 40% (or $800 minimum) towards their higher education expenses (after the expected family contribution is taken into account) from work
or loans before any grants would be awarded. The Self-Help grant maximum award would be $3,000 compared to $1,800 under the current Pell Grant program. Families with incomes above $26,000 would not be eligible for any Self-Help grant.

There would be an increase of 57% in College Work Study, but because of funding shifts from current programs to the Self-Help grant, the aggregate amount provided for student aid would remain at the FY 1983 level. Thus there is no nominal or real increase in student aid, a 5% reduction when inflation is taken into account.

About 80% of the students at black colleges receive Pell Grants.

In the Reagan Budget, overall aid to minority post-secondary institutions would decrease by $11 million. Funding for Title III Institutional Aid would increase slightly from $130 million to $134 million but Special Services for the Disadvantaged would decline by $26 million or 42.6%.

Lastly, the Administration proposes a higher education tax incentive that would permit families with adjusted gross income up to $40,000 to exclude from taxable income earnings on deposits of up to $1,000 per child per year for the payment of future higher education expenses.

Health

The FY 1984 budget makes a major assault on Medicare, proposing a number of changes which would significantly increase patient out-of-pocket costs. These include:

1) requiring copayments for the currently free 2nd through 60th days of hospitalization. After the 60th day a catastrophic limit would prevent further out-of-pocket expenses. The average length of stay for Medicare patients is 11 days; thus the Administration would use payments made by all patients during the first days to cover the expenses of the relatively few who stay hospitalized more than 60 days.
(2) Increasing the Part B Supplemental Insurance premium and deductible.

(3) Freezing physician reimbursement rates with no provision to prevent physicians from passing on increased fees to patients.

Poverty among the black elderly is a significant problem: 43.5% of elderly black women and 32.3% of elderly black men live in poverty.

For Medicaid, the Administration proposes mandatory copayments for all services except nursing home care, ranging from $1 to $2. While these amounts may seem small, they can represent a large proportion of discretionary income for those on low, fixed incomes. Blacks already receive less health care than whites. This copayment system could cause low income persons to delay seeking care until a medical problem becomes acute and more costly to treat.

Income Security

The Administration proposes a number of changes in the several programs designed to provide cash and food assistance to those unable to work or unable to find employment.

Food and Nutrition Programs would be reduced by 8.4% in the Reagan FY 1984 budget.

Child Nutrition: the budget includes resubmission of the FY 1983 proposal to block grant the Summer Food, Child Care Food and School Breakfast programs and reduce funding 28% below the current policy level. This proposal would most heavily impact low-income children. Approximately 97% of School Breakfast funds, over 75% of the funds for the Child Care Food Program and virtually all the Summer Food Program funds go to support free or reduced price meals for low income children.
Food Stamps: A reduction of $750 million is proposed for FY 1984.

Black households represent 36.8% of Food Stamp recipients (according to an August 1981 study, the most recent available). Proposals to reduce costs include:

(1) replacing the current standard and shelter deductions with a $140 per month standard deduction;

(2) establishing a new earnings deduction of $75 per month for recipients working full time to replace the current deduction;

(3) requiring any group of individuals living together to participate as a single Food Stamp unit;

(4) delaying the cost of living adjustment in the Thrifty Food Plan, on which benefits are based, and deductions for 6 months;

(5) requiring work fare for all able bodied participants.

The Food Stamp program has already been reduced by $11.25 billion since 1981. The proposed reductions are in areas where substantial cuts have already been made. The proposed 6 month COLA delay would come after 19 month delay during 1981 and 1982 and the 1% COLA reduction enacted last year. Further, replacing the 18% earned income disregard with a $75 standard deduction would mean substantial reductions in benefits and increased work disincentives for recipients earning over $5,000 per year, reducing benefits for most of the 1.4 million working poor families on Food Stamps.

A household with earnings equal to the poverty line would lose $250 per year in Food Stamps. For earners with high shelter costs (about 4 million households) the standardizing of shelter and earnings deductions would reduce benefits by up to $500 per year. Hardest hit would be several hundred thousand elderly and disabled households which could lose $400-$500 a year in Food Stamps.
Overall, several million families living below the poverty line would have their Food Stamp benefits cut as a result of the Administration's proposals on top of the losses in food purchasing power that would affect all Food Stamp families as a result of the 6 month COLA delay.

**Women Infants and Children (WIC):** The budget proposes funding for WIC at $1.10 billion for FY 1984 which would serve about 2.3 million women infants and children. At the beginning of FY 1983, about 2.43 million were participating in the program. The funding level proposed for FY 1983-84 requires a 5% caseload reduction. Currently about 9 million women infants and children are eligible to participate in this program which provides food to pregnant and nursing mothers and their infant children. The program has proven successful in improving the health of new-born and young children thereby averting high future medical expenses.

Similarly, reductions are proposed in cash assistance programs. For the **Aid to Families with Dependent Children** Program (AFDC) a reduction of $750 million is proposed for FY 1984, and $2.75 billion in FY 1984-86. These reductions would be in addition to the $6.10 billion in reductions for FY 1982-85 enacted in the past two years. Administration proposals include:

1. mandatory workfare for all recipients;
2. including all related adults and children in the AFDC assistance unit;
3. terminate parents benefits when youngest child reaches age 16.

A 34.2% reduction is proposed for the **Low Income Energy Assistance** program which aids low income people in payment of utility bills.
The Administration proposes a major restructuring of assisted housing programs and resubmits its plan for a new housing voucher program. The funding reduction for assisted housing programs would be $11.45 billion below the current policy estimate for FY 1984. Since the change in administrations, funding for assisted housing programs has been reduced by over 2/3.

The FY 1984 budget proposes to count Food Stamps as income in determining eligibility and rents in subsidized housing projects, which may be the most regressive measure in the budget since the poorer a family is the more Food Stamps it receives and therefore the more rent it would pay. About 2 million families would be affected. Many poor families, especially in the South where welfare payments are low, would eventually face rent increases of 50% to 100%. AFDC families in States like Mississippi (which provides maximum welfare grants of $96 per month for a family of 3) would eventually have to give most of their public assistance grant to the government for rent. (In fact, in Mississippi, this proposal would increase rents by 397%, leaving an AFDC mother of two $36 in disposable income after paying her rent.) Data from a 1981 Agriculture Department study shows that 85% of all households which would have their rents raised are elderly households or female-headed households with children. Fifty-one percent of black female-headed households live in poverty. The study also show that 80% of those who would be affected have incomes below $5,000 a year, and about half have incomes below $3,000.

This change would be in addition to the continued phased increase in tenant rents from 25% to 30% of income enacted in 1981.

The budget includes an additional $1.85 billion to extend the Federal Supplemental Unemployment Compensation (FSC) program. A 6 month extension is proposed along with modification of the FSC program with a voucher option.
Legal Services

The Administration also includes in its budget a plan to terminate funding for the Legal Services Corporation which provides legal assistance only to very low-income persons, assuring them access to the judicial system. This proposal has been made in the past and rejected by Congress.

Conclusion

Even this brief summary of budget proposals affecting programs important to black americans reveals a mistaken set of priorities. This Administration's FY 1984 budget will not stimulate new jobs, invest in the human or capital infrastructure or provide necessary assistance to those in need. This budget, like its predecessors, sacrafices long term benefits for short term monetary savings. The rhetoric that this budget is some kind of "freeze" is belied when specific program funding levels are examined.

It is essential to recognize that economic growth is necessary to provide the environment necessary to reduce unemployment, but macro policies to increase growth will not be enough to resolve the inequities minorities face and solve the massive problem of structural unemployment. Specific efforts must be made to bring the disadvantaged into the mainstream of economic activity, to transfer as many as possible from dependency to a position of self-reliance and productivity in society.

The Administration used to refer to a social "safety net" of programs for the disadvantaged. Government fiscal and monetary policies to control unemployment are the principle component of any safety net, protecting against fluctuations in the economy which cannot be controlled by even the most willing worker.

Reducing benefits to low income and unemployed people while fostering unemployment and reducing investment in education and job training is justifiably perceived as unfair and counter productive.
SOCIAL SECURITY FACTS & FICTION

FICTION: Social security is a full pension program. An individual’s retirement annuity is based on his contributions to the program plus interest.

FACT: Social security is not a pension or annuity plan. It is a social insurance plan. Social security benefits are supposed to supplement private savings and private pension plans. Because of the low wages paid to most workers (which prevents savings) and because many employers are unwilling or unable to underwrite their own pension plans, it means that for many people in this country, social security is the primary and even the sole source of retirement income.

FICTION: Social security is not a very "good buy". You can get a better deal in the private sector.

FACT: Social security cannot be matched by any private plan. It offers tax-free inflation-proof, benefits to the worker, his spouse, children and parents in the event of his disability, retirement or death. Social security offers complete FAMILY protection.

FICTION: Payroll tax deductions for the social security program have gotten out of hand. The program has moved beyond its original intent and must be curtailed.

FACT: The program began with a tax rate of 1% of payroll even though the architects of the program anticipated that the program's OASI costs would eventually reach 9.3%. The program now costs 9.4% of payroll. In addition, the $3,000 maximum taxable earnings base of the 30s was equivalent to 92% of all earnings in covered employment. While the 1982 maximum base of $32,400 is a big leap from the 1930s base, it actually represents just 89% of all covered employment earnings. Moreover, current benefits replace roughly the same percentage of a worker's pre-retirement income that they did at the program's inception.
FICTION: The social security program is bankrupt because benefits are "overly generous", old people are living longer and the ratio of workers to beneficiaries is too low.

FACT: The social security program is not going bankrupt. It does have a short-term cash flow problem (1983-1990) which will turn around after 1990. The financial problems the program is currently experiencing are not attributable to people living longer on "inflated" benefits. They are due to unemployment and inflation. For every percentage point of increased unemployment, the social security coffers lose 3.5 billion in-annual revenues. Every percentage point increase in the CPI costs the system 1.6 billion. Low unemployment and inflation rates are essential to a healthy social security system.

FICTION: Younger workers will not receive an adequate return on their contributions even though their payroll tax deductions continue to increase. Increased taxation will lead to intergenerational conflict because current workers are unfairly burdened by beneficiaries who are paid "overly generous" benefits.

FACT: Workers retiring 10-75 years from now will have the same proportion of their earnings replaced by social security as workers do now unless Congress changes the replacement rate. While it is true that the contribution rate will increase, so also should wages. There is no evidence that increased taxation will lead to conflict between young and old. Polls indicate that workers would rather have their taxes increased than have the level of benefit protection reduced. They understand that the social security program allows them to "pool" the risks for the care of aged parents. Moreover, in other industrialized nations, the taxes to underwrite their social insurance programs for the aged are far higher even though their standard of living is often lower than here. Yet, old and young are not battling in the streets. It is a matter of national commitment to the aged.
SOCIAL SECURITY TALKING POINTS

- We need more social security benefits not fewer. Social security is the major source of income for 2/3 of the elderly. It comprises 90% of the income for 1/4 of the elderly and even those seniors in the top 20% of the income bracket depend on social security for half their retirement income. Inadequate retirement income is the number one problem confronting the aged, particularly aged minorities.

- The proposed COLA delay represents a 40 billion cut in social security benefits at a time when a number of programs designed to aid the elderly have had their budgets slashed. As presently structured, the COLA increases are inadequate. They are scheduled after the impact of inflation is made and the largest expenses of the elderly are inflation-prone. The delay in COLA increases for many elderly will mean making a choice between hot meals or prescription drugs or electricity for the month.

- Unless a concrete supplemental retirement program for federal workers is created, we cannot support the mandatory coverage of new federal employees. Their Civil Service Retirement System is a full retirement system. Social security is not. We cannot see how the inclusion of new federal employees will shore up the system in the way that is desired. A more practical solution is to provide mandatory coverage of the 15 million officially unemployed workers by providing them with jobs. Full employment is the key to a healthy social security system.

- Taxing social security benefits changes the rules in the middle of the game. People paid into the system with the expectation that they would receive tax-free benefits. Moreover, with the precedent having been set, what is to prevent future legislatures from lowering the taxable base?

- Raising the retirement age will have a negative impact on blacks and minorities. Our life expectancies are shorter. We reject the notion that people must work till they literally drop dead. Longer lives do not necessarily mean healthier lives.

- We are concerned that black businessmen, who are the most vulnerable of the self-employed, will be particularly hard-hit by the increase in taxation for the self-employed. Some sort of floor should be determined above which taxes will be increased.

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