

POTENTIAL IMPACT OF GRAMM-RUDMAN ON THE AMERICAN FAMILY:

CRITICAL RESEARCH QUESTIONS FOR SOCIAL WORK

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During the past six years there has been substantial change in the size of the federal budget. The 1981 budget was \$678.2 billion while the proposed one for 1987 is \$994 billion. The size of the annual deficit increased from \$79 billion to a peak of \$212 billion, and the public debt grew from \$1.0 trillion to \$2.3 trillion during this same period. Even more crucial have been the changes in the purposes for which federal funds have been used.

The largest proportion of the federal budget has been spent for national defense and net interest on the public debt. There has been a slight increase in spending for health care and social security. Spending for human services and for certain other domestic programs has been severely reduced. There have also been major changes in the governmental priorities during the past six years. Prior to 1981, Congress placed a preponderant emphasis on creation of legislature and sustaining programs, while now the emphasis is moving dramatically toward controlling spending and reallocating responsibilities among federal, state and local governments. Rarely have we seen in recent years new legislation coming out of the Congress. Instead, much of the existing legislation has been reduced in scope, entitlement, and funding authorization. In effect, the federal government role as an equalizer of resources and opportunities among citizens and supporter of needy or disadvantaged groups of citizens of the United States has been replaced by the new goal of controlling spending on certain programs and balancing the national budget.

Since 1980 expenditures for human services have been cut severely. Many of the programs for the poor have suffered cuts of 40.6 percent (58% when adjusting for inflation); some for this particular population group have been completely decimated. Yet we know that the social ills and social conditions for which these programs were originated still exist and in many instances are increasing in scope and complexity. Equally dramatic is the lack of evidence that state and local governments or private and non-profit institutions have or would be willing to step in to fill the huge gap left by the diminution of federal support for service consumers.

The Balanced Budget and Emergency Deficit Control Act of 1985 -- known as the Gramm-Rudman-Hollings Amendment -- provided the impetus and justification for the 1986 cuts as well as those proposed for the next five years. The GRH Amendment was signed into law by President Reagan on December 12, 1985 as a measure to eliminate the federal deficit of some \$212 billion by 1991. The expectation is that actions under GRH will lead to a stronger national economy, a strong national defense, and a leaner federal government for the American people. A likely consequence is that its impact will be severely felt by all Americans, in general,

and its children, poor and aged, in particular. ²

Understand the Gramm-Rudman-Hollings Plan

The proposal for Gramm-Rudman-Hollings Amendment actually grew out of intense frustration of many senators with the seeming inability of Congress to solve the deficit problem. Members were concerned for fiscal reasons and because national polls and visits with constituents showed deficit reduction to be a high priority. ³ Both Democratic and Republican representatives had interpreted the 1984 election results to indicate that voters were not accepting of new taxes as an acceptable means for reducing the federal deficit. Yet both parties recognized that economic well-being of the country's future rests on a prompt and responsible approach to reducing the deficit. They had been unwilling to raise the national debt limit to about the \$2 trillion mark without also passing legislation to reduce or eliminate the deficits that create the debt. What emerged and quickly gained wide-spread acceptance in Congress was a proposal by Senators Phil Gramm, Warren Rudman and Ernest Hollings. ⁴ Rejecting critics arguments that it will not work, President Reagan signed into law the Balanced Budget and Emergency Control Act of 1985 initiating the radical process to force Congress and the President to meet annual deficit reduction target. If, by October 9 in any of the next five years, Congress has not passed a budget that reduces the federal debt by a set amount, leading to a balanced budget by 1991, the President would be required to "sequester"--take-away money from a broad range of federal programs. Half of the spending cuts necessary to meet annual spending targets is to be taken from defense and the other half from domestic programs, including agriculture, education, unemployment benefits, foreign aid, science, space, energy, national parks, transportation, and social services. Programs designated for exemption include Social Security, Medicaid, Aid for Families with Dependent Children, Supplemental Security Income, food stamps, feeding programs for children, and veterans' compensation and pensions. In addition, interest payments on the national debt and existing contracts are to be exempt. Other programs, including Medicare, veterans' health care, community and migrant health and Indian health are to be partially exempt. Under automatic cuts ⁵ these programs could be reduced by no more than one percent during 1986 and two percent during fiscal 1987 and subsequent years.

The basic law requires a reduction in federal spending by the difference between the amount of the deficit and the annual limit figure. For the fiscal year that runs through September 30, 1986, cuts in the amount of \$11.7 billion were made automatically and went into effect on March 1, 1986. The deficit goal for 1987 is \$144 billion, an estimated reduction of \$50 billion will be needed for that year. In each subsequent year, it is to be reduced by approximately \$36 billion until the

deficit reaches zero in 1991.

Although GRH is perceived by many to be radical and uncertain, it has succeeded in creating a deficit reduction "mind-set" on Capitol Hill. The intentions of the plan's framers are quite clear. They wanted a system that would impose automatic, across the board spending cuts, if Congress is unwilling or unable to reduce the deficit.

Unfortunately, given the nature of the federal budget, it does not lend itself to across the board spending cuts that will not yield absurd and arbitrary results. Knowing this, Congress can revise, abolish, or even ignore the GRH plan. Given Congress' past record of failing to make hard decisions on the deficit, some critics believe GRH will eventually be softened or put aside ⁶. Others hope that it will force the President to relent on a tax hike, despite his 1984 campaign pledge not to do so, rather than see his military buildup slashed. There is a possibility that Congress and the President may fail to make the tough choices and find a way to ignore or modify GRH while the deficit continues to rise. Or both the President and Congress can reach a compromise on taxes, and domestic and military spending. ⁷ Although the automatic cut provision in the GRH has been declared unconstitutional in a District Court test and is pending a Supreme Court ruling in June or July of 1986, the deficit goals, timetable, and deficit targets of the law are expected to remain.

Hard choices about spending priorities must be made regardless of how Congress feels about the practicality and viability of the Administration's Fiscal Year 1987 proposal for reducing the deficit. Failure to do so may result in high political costs, and a serious threat to the continued economic growth of the country. The President's Fiscal Year 1987 budget proposal describes how he thinks the deficit should be reduced. Now Congress must do likewise. And then both must agree on a deficit reduction plan. Failure to do so will result in the shut down of the federal government in October. Hence, as public anxiety about the deficit is extremely high and with this being an election year, Congress will have to face the difficult task of reducing the deficit.

The 1987 Deficit Reduction Proposal

The Administration's fiscal year budget sets forth a proposal for meeting the Gramm-Rudman-Hollings \$144 billion target. In addition, it articulates clearly President Reagan's social and economic philosophy for the U.S. Government. It continues to emphasize, as in the past, the Administration's intent to reduce domestic spending while increasing expenditure for defense. Human services would be cut by \$9 billion in fiscal year 1987, and by 1991, the impact would add up to a \$23 billion

reduction in assistance provided for the poor people. His \$994 billion budget exceeds the \$144 billion GRH target for 1987 by \$400 million. The Administration proposes to meet this target through reduction in spending for domestic programs, with no increase in tax and no reduction in defense spending.

TABLE 1
BUDGET SUMMARY

*(in billions of dollars)

| | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|------------------------|--------|--------|--------|---------|---------|---------|---------|
| Receipts | 734.1 | 777.1 | 850.4 | 933.2 | 996.1 | 1,058.1 | 1,224.0 |
| Outlays | 946.3 | 979.1 | 994.0 | 1,026.8 | 1,063.6 | 1,093.8 | 1,122.7 |
| Surplus/ Deficit(-) | -212.3 | -202.8 | -143.6 | -93.6 | -67.5 | -35.8 | 1.3 |
| GRH deficit targets | ----- | -171.9 | -144.0 | -108.0 | -72.0 | -36.0 | 0.0 |
| Difference | ----- | 30.9 | -0.4 | -14.4 | -4.5 | -0.2 | -1.3 |

*NOTE: Totals include social security, which is off budget.

The administration's budget meets the GRH maximum allowable deficit. It is based largely on basic assumptions about the economy. The administration predicts that government revenues will increase 46 percent over the next five years without any legislative changes and that future government outlays will decrease from current service levels. These predictions are predicated on the administration's belief that there will be sustained improvement in the economy at least during the next five year period.

Sequestrations under GRH are to be based on certain economic indicators. Therefore, it is essential that human service advocates concentrate on economic indicators. For example, the more healthy the economy the less severe the cuts will likely be. Further, the Office of Management and Budget claims that one

percentage in real Growth National Product could cause a \$6.2 billion higher deficit in 1987 and a \$17.7 billion higher deficit in 1988. Changes in the economy from time to time can and probably will substantially influence spending priorities. The administration claims that \$38 billion, instead of \$50 billion projected by GRH must be cut in order to carry forward into 1987 current services budget at the existing levels of government programs. If GRH sequestering cuts are made, one-half (\$19 billion) would be cut from defense and one-half (\$19 billion) would come from non-defense programs.

The administration's approach to cutting the \$38 billion is quite different. This budget is based on the following assumptions: (1) there will be \$6.3 billion more in revenue than was expected; (2) due to decreases in the deficit, interest on the public debt will decrease \$1.2 billion; (3) growth in defense will be cut only \$2.7 billion, rather than the \$19 billion projected by GRH; (4) there will be no change in general fund spending for Social Security; and (5) \$28 billion rather than the \$19 billion projected by GRH will be cut from non-defense activities. Table 2 summarizes how the administration proposes to reduce federal spending for 1987.

TABLE 2
Administration's Approach to Cutting Spending by
\$38 Billion for Fiscal 1987
(Dollars in Billions)

| | Current | GRH Cuts | Administration Proposal | Administration Savings |
|------------------|---------|-------------|----------------------------|---------------------------|
| Defense | 284.9 | -18.9 | 282.2 | -2.7 |
| Non-Defense | 382.2 | -18.9 | 384.2 | -28.0 |
| Social Security | 209.6 | ----- | 209.6 | 0.0 |
| Interest on Debt | 149.2 | ----- | 148.0 | -1.2 |
| Total Outlay | 1,025.9 | 988.1 | 994.0 | |
| Revenues | 844.1 | 844.1 | 850.4 | |
| Deficit | 181.8 | 144.0 | 143.6 | |

There are six priorities for expanded funding in the administration's 1987 budget. They are defense, anti-terrorist protections, protection from hijackings, space exploration,

enforcement of drug laws, and AIDS research and control. On the other hand, the administration would significantly reduce the size and scope of the federal government to meet GRH deficit targets. These reductions would involve the elimination or shrinkage of certain programs, turning over certain federal governmental functions to the private sector (Privatize), selling off major government assets, transferring federal responsibilities to states and local governments (Federalism), and charging "user fees" for many remaining government services. The impact of this cost-cutting approach will be felt most severely by the beneficiaries of human services and other domestic programs of the federal government.

In his budget message to Congress, President Reagan promised not to break faith with those poor and elderly who depend on federal programs for their security. Yet many of the President's proposals of prior years for reducing spending for programs serving this population are an integral part of his current proposal. These include: narrowing eligibility for AFDC, elimination of the Community Service Block Grant, elimination of the Legal Services, and elimination of subsidized lunches for middle income families.

In addition to prior proposed cuts for this population, the current budget proposes new ones. To mention a few, Medicaid would be cut \$1 billion; low income, public, and rural housing would be eliminated; student financial aid would be reduced; general revenue sharing would be eliminated; several elementary and secondary education programs would be eliminated, and the Community Development Block Grants would be reduced. On the whole spending for human service programs would decrease only 5 percent next year, from \$434.7 billion in 1986 to \$432.4 billion in 1987. If Social Security is removed from these calculations, cuts in human services would amount to \$13.9 billion, or 6 percent next year, without adjusting for inflation.

Those programs that provide service primarily to low income people are also included among those proposed for cuts. These programs are to be cut from \$46 billion in 1986 to \$38.7 billion in 1987, a \$7.3 billion or (16 percent) reduction. These proposed cuts together with those sustained since 1980 would have significant impact upon the low income population.

Grant-in-aid services provided at the state and local level are also slated for cuts. The President would reduce these outlays by \$9.7 billion or 9 percent in 1987. The real purchasing power of grants to states and local governments decreased 29 percent--payments to individuals are excluded--during 1980 to 1986. It is estimated to be decreased by another 20 percent in 1987 and 1991, 25 percent.

Beyond 1987 there will likely be substantial reductions in

human service spending. Programs likely to be hit the hardest will continue to include AFDC, unemployment insurance, SSI-income insurance. Even the programs that are supposed to be frozen at the 1986 funding level will continue to suffer, since many have already endured substantial cuts; the impact of inflation will further erode the viability of many others that are cut and then transferred to state and local care. They will have to face stiff competition for scarce financial resources at the state and local level.

Cuts in other federal programs are estimated to be about five percent in 1987, without adjusting for inflation. By 1991, when adjusting for inflation, the rest of government--including defense, interest on the debt, Social Security, Medicare, Medicaid and other human services, will be cut by 20 percent.

Between 1980 and 1991, the rate of spending in major categories of the federal budget are projected to show the following changes:

TABLE 3
Projected Changes in Rates of Spending
Among Different Factions

| | FY 1980 | FY 1986 | FY 1987 | FY 1991 |
|------------------------------|---------|---------|---------|---------|
| 1. Defense * | 22.7% | 27.1% | 28.4% | 32.6% |
| 2. Social Security | 20.1% | 20.4% | 21.3% | 23.5% |
| 3. Interest on Debt | 8.9% | 14.6% | 14.9% | 10.3% |
| 4. Medicare/Medicaid | 8.3% | 9.5% | 9.5% | 11.4% |
| 5. Other Human Services | 23.7% | 12.7% | 11.1% | 9.9% |
| 6. Other Government Programs | 16.4% | 15.6 % | 14.7% | 13.2% |

*Defense includes only #050 function. There are other defense-related activities such as some provided by the DEpartment of Energy that are not included. 1 2

Potential Impact of Proposed Cuts

The proposed federal budget would make large cuts in low income programs of \$8 billion in 1987. As many as 14 programs are slated for termination. The Center on Budget and Policy

Priorities found that benefit reductions would be made in nearly all basic low income benefit programs while 14 of all such programs would be completely eliminated. The analysis shows that reductions in low income programs would be three times larger than the savings from the much-discussed sale on certain government assets, which is also proposed in the new budget. In addition, they found that 2 million elderly persons living below the poverty line would be required to pay more out of their own income for medicare coverage. In effect, the proposed deficit reduction plan for 1987 would exact substantial toll on poor families and low income elderly persons, while providing for a large increase in defense spending for 1987. This proposal will undoubtedly reduce standards of living and increase hardship for many who are poor. Claims by the administration that the 1987 budget proposal would protect low income Americans notwithstanding, the proposals included in the President's budget request would, if enacted, represent the deepest cuts in programs for the poor since the large reductions of 1981. While we cannot be certain which, if any, of the deficit reduction proposals will eventually be enacted and to what extent during the 1987 legislative process, we can be certain that there will be cuts. Predictions are however that Congress will be concerned about the degree to which spending for defense should be increased, not whether defense spending should be increased and other domestic social programs frozen or cut. Likewise Congress will likely be concerned about which rather than whether certain government assets ought to be sold to help reduce the deficit.

Social work as well as advocates for the poor, children, and elderly might wonder whether there are alternatives to deficit reduction other than those currently proposed. OMB Watch argues for a more balanced approach to deficit reduction involving (1) deep but responsible cuts in military spending, (2) fair but substantial increases in tax revenues, (3) preservation and/or enhancement of what remains of domestic programs, and (4) a slower process, (i.e. "acknowledge that there is nothing magic about ending the deficit by 1991."). Hence, they believe the problem of the deficit is a problem of politics and economics not money. 1 4

Some Critical Questions for Social Work

Given social work's long standing commitment to the children, poor, and elderly of this country some critical questions are suggested:

1. To what degree is the deficit that now plagues American families a consequence of excess spending for low income programs? increases in defense spending? or reduction in tax rates? In 1980 low income programs accounted for 9.6 percent of all government spending and according to the administration's proposal it would account for 3.5 percent

in 1987. Obviously, it is not spending on low-income programs that is driving the national debt up; in fact, spending for low income programs has had very limited impact on the deficit. Both increases in spending for defense and reduction in the tax rate may have contributed to the deficit, since the 1985 tax cuts reduced federal revenue by \$110.5 billion and increased the nation's deficit to \$212.2 Billion. Projections are that more than half the anticipated deficit in 1985 and almost two-thirds in 1986 would have been eliminated had it not been for the tax reduction. As such, would there be a need then to cut spending for social services and other entitlement programs for America's children, poor, and elderly?

2. How can we really determine the real cost of the cuts in human services over time? More specifically, what will it mean in terms of job opportunities and preparations? real economic growth? in quantity and quality public services in our own town and communities? in economic security? and decent health care for children, the poor, and elderly? Are the American people willing to permit the proposed cuts to actually occur? Although current public opinion polls suggest not, will the American people make known their views to this effect to their elective officials?
3. Has America truly progressed to the point that federal intervention is no longer needed as the equalizer of opportunity for certain of its citizenry? As the supporter of innovation in programs? As the supporter of reforms and the chief supporter of efforts to correct maldistribution in service delivery? Is there no longer a need to continue the national priority in supporting programs providing economic self-sufficiency (e.g. jobs, day care)? and in meeting basic human needs (e.g. food, clothing, shelter, health care)? Are the ill-fed, ill-educated, ill-housed, ill-clothed citizenry threatening our national security?
4. To what degree are states and local communities willing and able to assume responsibility for continuing the support of many of the important human service programs that are proposed by the federal Government to be transferred to state and local responsibility? How, for instance, will states choose to respond to these additional financial obligations on their already strapped budgetary situations? Will they choose to increase taxes or terminate services that are perceived to be beyond their financial capability to provide? Or how will they set priorities among such competing demands as supporting street construction and general assistance to poor people?
5. How will the proposed cuts affect low income families? In particular, how will the work force requirement in AFDC

(i.e. work in exchange for welfare checks) for all employable applicants and beneficiaries affect the family? How will it affect the community? What will be the affect on the family of such provisions as barring teenagers and their babies from leaving their parents' homes unless they get married, and excluding parents whose youngest child is 16 or older from AFDC benefits? What will the effects of these changes be on the community and the larger society?

6. What are the potential implications of GRH on professional social work practice? What strategies, interventive approaches, theoretical formulations and practice modalities do we have that might be useful in providing the insight and guidance for responding effectively to both the latent and manifest consequences of Gramm-Rudman-Hollings?