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VETERANS

History.

The United States has historically shown great concern for its veterans, more so than many other nations. As early as the first Indian wars, colonial legislatures voted lifetime support for veterans who returned home unable to support themselves because of wounds sustained in battle.

During the Revolutionary War, the Continental Congress made it a national policy to provide pensions for disabled veterans, and for the widows and orphans of soldiers and sailors who died in battle.

Pensions and veterans care grew in dramatic spurts during the Civil War and World War I. In 1930, all government activities pertaining to veterans were consolidated in a single agency, the Veterans Aministration.

At that time, there were about 4.7 million veterans in the United States. With the return of the draft during World War II, the nation's population of potential veteran-beneficiaries rose to 19 million.

To meet the needs of this greatly-enlarged population, and to assist the many returning veterans in re-adjusting to civilian life, Congress authorized a vocational rehabilitation program for disabled veterans in 1943, and passed the GI Bill in 1944. The latter provided educational and vocational training benefits, home loan guarantees, and other assistance. These benefits were continued and expanded during the Korean and Vietnam conflicts.

o **The Program.**

-- Income security for veterans. In addition to Federal income security programs for the general population, such as social security, unemployment insurance, and food stamps, several VA programs help certain veterans and their survivors maintain their incomes when the veteran is disabled, aged, or diseased.

* Service-connected compensation.

  - Monthly compensation payments are provided to veterans with disabilities resulting from military service.

  - The amount of the benefit depends on the degree to which average earnings of individuals with a particular disability are reduced.

  - Payments are also made to survivors of veterans who die from service-connected injuries.

* Non-service-connected pensions.

  - Pensions are provided to needy wartime-service veterans who are 65 or older or who have become disabled subsequent to their military service.

  - Survivors of wartime-service veterans may also qualify for pension benefits based on financial need.

* Burial and other benefits.

  - Families of deceased wartime veterans who are to be buried in private cemetaries may receive an allowance to apply toward the purchase of burial plots.

  - Families of deceased veterans who were receiving compensation or pensions also receive burial benefits to assist in defraying funeral expenses.

* Insurance programs.

  - The Veterans Administration offers life insurance for veterans.

-- Veterans education, training, and rehabilitation.

* The GI bill provides education benefits ranging from college courses to vocational and on-the-job training.

  - These benefits help eligible veterans make the transition from military to civilian life by assisting them in obtaining the education they might have received had they not entered military service.

  - Active duty servicepersons and widows and children of veterans who have died or been totally disabled in military service are also eligible for these benefits.

* Individuals who entered military service after 1976 are eligible for the post-Vietnam-era education program, which allows them to set aside $25 to $100 from their monthly pay to finance future education.

  - These amounts are matched by the government on a two-for-one basis and returned to them in education payments after they are discharged.

-- Hospital and medical care for veterans.

* The Veterans Administration provides hospital and medical care to veterans by operating a nationwide medical care system consisting of 172 hospitals, 226 outpatient clinics, 101 nursing homes, and 16 domiciliary facilities.

-- Veterans housing.

* VA mortgage loan guarantees and direct loan programs assist veterans in buying homes.

o **Coverage.**

-- Since the first GI Bill became effective in 1944, almost 19 million veterans have taken training under some VA program; more than 8 million have been instructed at college level.

* The number of persons training under VA educational programs peaked in 1976 at 3.0 million.

* The 1982 figure was 906,000.

-- The GI Bill also has made possible more than $200.0 billion in VA-guaranteed home loans for 10.9 million World War II, Korean conflict, post-Korean, and Vietnam-era veterans.

-- Nearly 2.3 million veterans currently receive some level of disability compensation.

o **Costs.**

-- Total outlays for veterans benefits more than doubled since the start of last decade -- from $8.7 billion in FY 1970 to $23.9 billion in FY 1982.

-- Two-thirds of veterans expenditures go to benefit programs, with nearly 30% devoted to medical programs.

o **Administration Action to Date.**

-- For FY 1982:

* President Carter proposed total outlays for veterans benefits of $24.4 billion.

* President Reagan proposed $23.6 billion.

* Congress appropriations resulted in outlays of $23.9 billion.

-- During 1981, President Reagan signed into law several bills that enlarged benefits to veterans, including:

* Medical care for veterans with disabilities resulting from exposure to agent orange and low-level ionizing radiation.

* Cost-of-living increases for veterans being compensated for service-connected disabilities.

* Two-year extension of eligibility for GI bill training for educationally disadvantaged Vietnam veterans.

-- For FY 1983:

* President Reagan proposed total outlays of $24.4 billion.

* Congressional appropriations should result in outlays of $24.4 billion.

The President's Proposals for FY 1984.

o The Administration proposes total outlays of $25.7 billion for veterans' benefits in FY 1984.

o Specific proposals:

-- A more than $600 million increase in hospital and medical care for veterans.

-- A 5-1/2% cost-of-living (COLA) adjustment in disability benefits, effective April 1, 1984, reflecting a six-month delay in the present practice of providing COLAs each October.

-- A 5 1/2% increase in veterans' pensions, after a six-month delay.

* The FY 1984 budget provides for a six-month delay in Social Security COLA adjustments, from June to December of each year.

* This proposal results in an identical COLA delay for veterans pensions, since cost-of-living adjustments for these programs are linked by law.

-- An increase in the veterans credit program.

* Federal loan guarantees for veterans will rise to $19.5 billion in 1983 and $20.8 billion in 1984 (up from $6.8 billion in 1982.)

Justification.

o Hospital and medical care.

-- The increased expenditures for medical care are particularly necessary to meet the needs of World War II-era veterans, the vast majority of whom will reach age 65 during the 1980s.

-- Veterans hospitals must be improved and enlarged, and hospital staffs expanded.

o FY 1984 COLA delay in disability pensions and benefits.

* These delays are consistent with current government efforts to delay increases or freeze spending on most income-support programs across the board.

* With the dramatic reduction of inflation rates under the Reagan Administration, COLA increases are far less urgent than they were in the days of high inflation, so that veterans will not be hurt by the COLA delay.

-- This policy will achieve budgetary restraint in the most equitable way possible by restraining the growth of these programs while minimizing the effects of such restraint on beneficiaries.

o Credit budget increase.

-- The increase in the credit budget for this program is due almost entirely to an increase in demand for home mortgage loan guarantees.

-- The anticipated continued decline in interest rates should further this trend.

Questions and Answers.

o Delayed Disability COLA. How can you justify reducing benefits to veterans who served our country and suffered permanent injuries during their time of service?

-- Benefits are not being reduced, and increases are only being postponed by six months.

* It is important to keep in mind that this COLA is not automatic, but subject to annual enactment by Congress.

-- The COLA delay is identical to that being requested for Social Security recipients.

-- The current low rate of inflation minimizes any adverse effect the COLA delay may have on veterans.

o Pensions. Why can't veterans' pensions be exempt from the Social Security COLA freeze, since so much of their income is Social Security income that will also be subject to COLA delay?

-- The majority of beneficiaries under the pension program are widows of veterans.

* Pensions are awarded to widows on the basis of need.

* If a widow's income is below a certain level, she qualifies for a pension.

-- Unless pension income and Social Security income are simultaneously adusted for increases in the CPI, the Social Security COLA would be counted as additional income, and that could reduce some widows' pension benefits, or drive them off the rolls entirely.

-- To preserve current pension benefits without a structural change in the law, both the Social Security and veterans pension benefits must be delayed for an identical period.

AGRICULTURE

History

In 1862, Congress enacted legislation creating the Department of Agriculture. In 1889, the duties of the Department were enlarged and it was made the eighth executive department in the federal government.

The Department works to improve and maintain farm income and to develop and expand markets abroad for agricultural products. USDA also works to enhance the environment and to maintain agricultural production capacity by helping farmers protect the soil, water, forests and other natural resources. Through inspection and grading services, USDA safeguards and assures standards of quality in the daily food supply.

o **Major Programs.**

-- Commodity Credit Corporation (CCC).

* Includes:

- Non-recourse commodity loan program, which offers loans to farmers on their production at the time of harvest, and allows the farmer to deliver the commodity to the government at the loan price if the market price falls below that on which the loan was based. Thus, the price is guaranteed for the farmer. In FY 1973, total gross commodity loans were $1.6 billion. In FY 1981, the level was $5.6 billion. And in FY 1983, it is estimated at $11.8 billion.

- Target prices protection, which offers farmers deficiency payments equal to an amount the actual market price falls below the target price, with the loan rate being the minimum price. Eligible crops include wheat, corn, sorghum, oats, barley, rice, and upland cotton. In FY 1973, there were no deficiency payments. In FY 1981, the level was zero as well. In FY 1983, it is estimated at $2.8 billion.

- Production adjustment program require the farmer to reduce planted acreage in return for the above loan and target price protection. Set-aside, or acreage reduction programs require farm reductions without additional compensation. Land diversion programs provide farmers cash payments in return for acreage reductions. Payment-In-Kind (PIK) programs, begun by this Administration, provides farmers surplus stocks instead of cash payments in return for acreage reductions. In FY 1983, land diversion payments (cash) are estimated to cost $1.1 billion.

- Dairy price support program purchases dairy products from processors in cases of overproduction, with processors guaranteeing the price for producers. CCC dairy purchases totaled $158 million in FY 1973. In FY 1981, the level was $2.0 billion. And in FY 1983, the level is estimated to be $2.3 billion.

- Export credit program provides loan guarantees and direct loans intended for export sales that would not have occurred without the federal credit. The level of assistance for these programs was $1.0 billion in FY 1973. It was $1.5 billion in FY 1981. And in FY 1983, the level is $5.2 billion.

* Cost.

  - In FY 1973, CCC net budget outlays equaled $3.6 billion. In FY 1981, the net outlay level was $4.0 billion. And in FY 1983, the level is estimated at $21.2 billion -- a fivefold increase in just two years.

-- Farmers Home Administration (FMHA).

* Provides credit for those in rural America who are unable to get credit from other sources at reasonable rates and terms.

* There are a number of different loan programs ranging from loans for farm ownership and operating costs, recovery from emergency natural disasters, and community facility construction.

* In FY 1973, $3.8 billion in loans and grants was provided for 319,000 farmers. In FY 1981, $13.9 billion helped 324,000 farmers. In FY 1983, $9.1 billion is helping 191,000 farmers.

-- Foreign Agricultural Service (FAS).

* Functions.

  - Promotes market development for agricultural exports through a network of counselors, attaches, and trade officers stationed overseas.

  - Operates CCC export credit program described above.

  - Provides P.L. 480 assistance -- low-interest long-term loans to foreign countries that consume U. S. commodity exports -- and makes direct donations of farm products in cases of disaster.

* Cost.

  - In FY 1973, the cost of market development functions was $29.8 million. In FY 1981, the level was $64.6 million. And in FY 1983, the level is $91.1 million -- a tripling over the decade, and nearly a 50% increase in just two years.

  - Outlays for export credit programs are included in the CCC budget.

  - P.L. 480 outlays were $754 million in FY 1973. In FY 1981 the net outlay level was $1.3 billion. And in FY 1983, the level is estimated at $1.0 billion.

-- Federal Crop Insurance Corporation (FCIC).

* Provides All-Risk Crop Insurance for unavoidable production losses due to any adverse weather conditions including drought, excessive rain, hail, winds, hurricanes, tornadoes and lightning, as well as unavoidable losses due to insect infestation, plant disease, floods, fires and earthquakes.

* The Federal Crop Insurance Act, passed by Congress in 1981, directed FCIC to expand this insurance program with the intention of substituting it for disaster programs in the near future. This expansion resulted in a virtual doubling of the number of acres insured, and resulted in a FY 1983 budget more than 8 times larger than that of FY 1981.

* In FY 1973, the budget for this program was $15.6 million. By FY 1981, the level had increased to $64 million. And in FY 1983, administrative and operational expenses for FCIC total $529.4 million.

o **Total Costs.**

-- In FY 1973, the gross program level -- the amount of money spent directly to help farmers and agricultural activities -- was $14.5 billion.

-- In FY 1981, the level was $33.4 billion, a more than doubling in just eight years.

-- And in FY 1983, the level is $47.8 billion, an increase of more than 40% in just two years.

Administration Action to Date.

-- For FY 1982:

* President Carter requested $28.3 billion.

* President Reagan requested $28.7 billion, $6 billion of which was added in a supplemental appropriation for CCC programs.

* Congress approved $29.6 billion, which includes the $6 billion supplemental.

-- For FY 1983:

* President Reagan requested:

  - Budget authority of $33.2 billion.

  - Programs changes including the institution of a variety of user fees.

* Congress approved:

  - Budget authority of $33.8 billion.

  - Program changes as requested by the Administration.

The President's Proposals for FY 1984.

o Commodity Credit Corporation (CCC).

-- Freeze target prices for wheat, feed grains, cotton and rice at current levels rather than increasing them annually as current law mandates.

-- Implement the Payment-In-Kind (PIK) program, which was announced by the Administration in January 1983. This program provides farmers surplus commodities, in the sum of 80-95% of their normal production, instead of cash, in return for reducing production.

o Farmers Home Administration (FmHA).

-- Reduce spending for FmHA programs from the 1983 level of $9.1 billion to $5.5 billion in 1984, primarily by refocusing resources more directly for activities appropriate in the agency's role as creditor of last resort.

* Reduce housing loans from $3.3 billion in 1983 to $300 million in 1984, primarily by replacing the direct loan program with an $850 million block grant program to be administered by the states.

* Reduce emergency disaster loans from the 1983 level of $2.0 billion to $1.5 billion in 1984. These loans are made to enable farmers to continue their operations after experiencing natural disasters.

* Eliminate loans for recreation, irrigation, drainage, watershed, flood prevention, and resource conservation and development.

* Increase operating loans from the 1983 level of $1.5 billion to $1.8 billion in 1984. Operating loans enable family farmers to cover the costs associated with planting their next crops. These loans may be used to pay for equipment, livestock, feed, seed, fertilizer and other farm operating needs.

o Foreign Agricultural Service (FAS).

-- Increase the program level from $81 million to $91 million in 1984, primarily for increased market development activities.

o Federal Crop Insurance Corporation (FCIC).

-- Reduce budget authority from $529.4 million in 1983 to the level of $473.9 million in 1984.

- Increase the appropriation for administration and operating expenses for the nationwide insurance program from the 1983 level of $236.2 million to $279 million in 1984.

- Increase the appropriation for the premium subsidy program in the FCIC Fund from the 1983 level of $115.6 million to $170 million in 1984.

- Request no additional appropriation for capital stock beyond the current level of $400 million received over the FY 1982-83 period.

Justification (General).

o Reduce federal spending.

-- The President's request for a total agriculture program level of $40.6 billion for 1984, excluding food and nutrition programs, is $13.3 billion less than the 1983 level.

o Place restraints on one of the fastest growing areas of the budget.

-- Federal agricultural loan programs have skyrocketed.

* Net outlays for CCC have grown from $2.8 billion in 1980 to $12 billion in 1982, a three-fold increase in just two years. Net outlays for 1983 are projected to reach $21 billion, a 75% rise in a single year.

* FmHA outlays have grown from $3.6 billion in 1974 to $13.9 billion in 1981, a three-fold increase in seven years.

-- The President's proposal would reduce CCC outlays to their 1982 level of $12 billion, and cut FmHA outlays to $5.5 billion.

o Promote more efficient, free-market agriculture.

-- Since 1933, the government's role has been to moderate extreme movements in farm prices and income which occur because of uncontrollable factors such as weather and general economic conditions. But government intervention has become so great as to be harmful to farmers and taxpayers alike.

* When price support levels are set too high, as they presently are, farmers are given an incentive to increase production beyond what the market would bear.

* Farmers abroad are also encouraged to increase production because foreign grain exporting countries set their prices based largely on U.S. prices.

* With the resulting supply exceeding demand so greatly, lower prices are paid for the commodities.

* These excessively lower prices, which are not in the farmers' financial best interest, typically lead to clamor for even more government intervention and even greater cost to the taxpayers.

-- The President's proposals, by reducing the extent to which Federal agricultural price supports interfere with the market, would improve farmer efficiency and long-term profitability while holding down government costs.

Justification (Specific).

o Commodity Credit Corporation.

-- Freezing price supports.

* Net outlays for price support programs at CCC have grown out of hand, increasing from $2.8 billion in 1980 and $12 billion in 1982.

* Holding target price levels for wheat, feed grains, cotton and rice in 1984 would reduce subsidy payments and still give producers a fair rate of return.

- The 1981 farm bill assumed a 22-30% cumulative increase in inflation between 1981 and 1985.

- Production costs now are expected to rise only 15% over that period.

- Therefore, a freeze of price supports at the 1983 level would be sufficient to cover the projected increases in farm production costs.

-- The PIK program will provide substantial benefits to the taxpayers as well as farmers.

* Taxpayers will benefit because:

  - Substitution of commodity transfers for cash payments will significantly reduce federal outlays that would otherwise result from the price support program.

  - Distribution of government-held commodities will reduce storage costs.

* Farmers will benefit because:

  - Their receipt of commodities in the sum of 80-95% of their normal production will allow them to sell for profit in the marketplace with significantly reduced production costs.

  - The ability to conserve their lands for one or two crop seasons will allow farmers to repair and nourish them.

  - By reducing the great supply of commodity stocks, the PIK program provides the basis for future price recovery.

* Export credit programs would be kept at a minimum for two major reasons:

  - The Administration anticipates that the world economy will in recovery by 1984, making a less ambitious program appropriate.

  - The Administration is emphasizing loan guarantees rather than direct loans. No federal outlays will be incurred under the export credit guarantee program unless claims must be paid by CCC to private banks that cannot obtain scheduled payments for credit they have extended to foreign participants in the program.

o Farmers Home Administration.

-- The portfolio of outstanding loans and loan guarantees held by FmHA has increased from less than $20 billion in 1976 to over $60 billion in 1983 -- a tripling in seven years. The economy can no longer sustain such an outstanding loan burden.

-- The projected reductions for 1984 in emergency disaster loans reflect legislation approved in 1980 that gradually phases out all emergency loans in excess of the amount of the actual loss, and a proposed legislative change to restrict emergency disaster loans in areas where Federal Crop Insurance is generally available.

  * As the FCIC expands its crop insurance coverage, the emergency loan program at FmHA can be reduced correspondingly.

-- The reduction in spending for housing loans reflects the Administration's replacement of direct loans with a block grant to the states.

  * The block grant gives the states authority to provide housing assistance to very low income families in rural areas either through grants or subsidized loans.

  * It also provides flexibility for the states to structure housing assistance to meet the specific needs of their residents.

o Foreign Agricultural Service.

-- The increase of $10 million will offset overseas inflationary costs and allow for real growth in foreign market development.

  * Activities will be specifically targeted to developing nations with the greatest potential for growth in agricultural trade.

o Federal Crop Insurance Corporation.

-- Increasing the appropriation for administrative and operating expenses by $42.8 million: This increase is required for continued growth and expansion of the nationwide insurance program.

-- Increase the FY 1984 appropriation for the premium subsidy program in the FCIC Fund by $54.4 million: This level reflects the Administration's expectation that farmer participation in the crop insurance program will increase through crop year 1983.

-- Requesting no additional capital stock beyond the current level: The 1983 appropriation is sufficient to provide for indemnity payments and other corporation expenses during 1984.

Questions and Answers

- Fairness of budget cuts. How can we afford to cut the agriculture budget by one-third when farm bankruptcies are at post-Depression highs?

  -- The overall farm program budget is not being cut. The cost of the farm entitlement programs is expected to decline from the all-time high of $21 billion in FY 1983.

  -- Most important, however, farm operating loans will be increased by $350 million.

    * Farm operating loans are most critical to farmers as a needed source of capital to continue their production.

    * With the proposed increase, more than 4,000 more loans will be made in 1984 than in 1983.

  -- The Administration is rescheduling the debts of farmer borrowers who have shown good faith efforts to repay their loans and have good management practices.

    * Most operating loans are repaid over a period of 1 to 7 years.

    * The government is now allowing individual farmers to make lower payments over a period of up to 7 additional years and/or to be delinquent with USDA approval without foreclosure on their loans.

  -- The Administration has added 646 more staff years in 1983 so farmers can receive more individualized attention and counselling.

- Price supports. If price supports are frozen, how will farmers be able to make ends meet?

  -- The Agriculture and Food Act of 1981 assumed escalating inflation through 1984 and 1985. But since inflation has not been increasing as rapidly as anticipated, a freeze of price supports at the 1983 levels is appropriate.

  -- Supports at 1983 prices will still cover the projected increases in farm production costs in 1984.

o Benefits of the PIK program. Isn't the PIK program just an easy way out of providing real help to the farmers?

-- PIK offers both long-term and short-term benefits to U. S. farmers.

* Short-term

- The PIK program compensates farmers for not growing more crops. By giving them 80-95% of the amount of the commodity they would normally have grown, the farmers are net gainers because they have incurred no production costs.

* Long-term

- One of the greatest factors limiting the U.S. farmer's ability to earn a reasonable profit is the large surplus of commodities that is far more than adequate to meet the nation's food demands.

- When supply so greatly exceeds demand, prices are always low, unless government intervenes.

- The PIK program will help reduce huge government-held surpluses, and thereby increase long-term agricultural profitability.

o Effects of loan reductions. With funding for FmHA credit programs cut in 1984, won't fewer farmers be aided by loan programs?

-- Farmers will not be hurt by cuts in regular farm loan programs because no cuts will take place there. The funding level for these programs, which are primarily for farm operating costs, will actually be increased in 1984, allowing a rise in the number of loans from an estimated 61,735 in 1983 to about 67,455 in 1984.

-- Though the number of farmers served by the FmHA emergency disaster loan program will decrease by about 9,000 in 1984, coverage by the Federal Crop Insurance Corporation will more than adequately make up for Farmers Home Administration reductions.

* The number of FCIC county programs will increase by about 900 in 1984.

* The amount of insurance in force will increase from $6.1 billion in 1983 to $11 billion in 1984.

* The number of insured acreage will almost double from 44 million in 1983 to 85.2 million in 1984, representing an increase in participation from 18% to 30%.

EXPORT PROMOTION

History.

The Commerce Department and other federal agencies offer a variety of programs to provide counselling to American businesses that wish to sell abroad. The budgetary impact of these programs is not significant.

The direct and indirect subsidy of U.S. exports is significant, however. Federal subsidies for this purpose are dispensed through the Export-Import Bank (Eximbank), which was established in 1934 and chartered as an independent government agency in 1945.

The Eximbank was founded largely as a response to predatory credit practices by the governments of foreign exporters. These governments often try to make their exports more attractive to buyers by offering below-market financing to pay for them. The Eximbank is a way of meeting this unfair competition head-on.

o **The Program.**

-- The Eximbank makes low-interest loans to foreign firms and governments that buy American goods and services.

-- It also insures and guarantees repayment of loans made to foreign purchsers by other lending institutions.

o **Coverage.**

-- Eximbank's direct loans finance less than 2% of U.S. exports of goods and services.

-- Eximbank's direct loans and loan guarantees combined assist only about 7% of U.S. exports of goods and services.

-- Half of Eximbank's direct loans have gone to seven companies: Boeing, Westinghouse, McDonnell Douglas, Combustion Engineering, Lockheed, Western Electric, and General Electric.

o **Costs.**

-- The U.S. Treasury provided Eximbank with $1 billion in seed capital when the bank was chartered in 1945.

* This money has been lent and repaid with interest on many occasions since then, thus increasing Eximbank's available capital.

-- Eximbank receives no annual appropriations from Congress; instead the bank is permitted to borrow from the U.S. Treasury up to limits prescribed by Congress through the appropriations process.

* Eximbank was intended to be self-sustaining. For years the Bank's internal policy was to operate in the black by lending the money it borrows from the Treasury at a rate higher than the rate at which it borrows, but lower than the rate charged by commercial banks.

* Unfortunately, because of rising interest rates, the bank since 1966 has been lending money at a lower rate than the rate it often is charged by the Treasury.

* In 1982, it operated at loss for the first time since it was founded. The amount of the loss was approximately $160 million.

-- The real cost of the Eximbank, however, is perhaps more accurately measured by the amount of money it siphons off from the capital pool in the form of loans that would not be made if it did not exist.

* In FY 1970, Eximbank made direct and indirect loans of $2.2 billion, and issued loan guarantees of $1.8 billion.

* In FY 1980, Eximbank made direct loans of $4.4 billion, and issued loan guarantees of $7.9 billion -- a tripling in just ten years.

o **Administration Action to Date.**

-- For FY 1982:

* President Carter proposed funding levels for Eximbank of $5.0 billion for direct loans and $9.4 billion for loan guarantees -- a nearly six-fold increase over 1977 levels.

* President Reagan proposed funding for Eximbank of of $4.4 billion for direct loans and $8.2 billion for loan guarantees.

* Congress approved $4.4 billion for direct loans and $9.2 billion for loan guarantees.

-- For FY 1983:

* President Reagan proposed to reduce direct lending by $570 million to $3.8 billion, and hold loan guarantee authorizations to $8 billion.

* Continuing resolutions passed by Congress maintained Eximbank authorizations at FY 1982 levels.

o **The President's Proposals for FY 1984.**

-- The Administration proposes to reduce the limit on direct loans from $4.4 billion to $3.8 billion in FY 1984.

* The President will request supplemental authorization for direct loans of up to $2.7 billion if necessary to meet officially-subsidized foreign competition.

-- The Administration proposes to raise the limit on loan guarantees by 11% in FY 1984, from $9 to $10 billion.

Justification.

o These proposals reflect recent political and economic developments that have altered the evironment in which Eximbank operates.

-- During the past year, the Administration succeeded in getting other industrialized nations to reduce export subsidies; Eximbank's direct loan program is now competitive with foreign programs.

* Lower interest rates will shift demand from direct loans to loan guarantees.

* The sharp decline in interest rates has reduced the need for Eximbank to offer direct loans at below-market rates.

* Rather than having to ask for direct loans at below-market rates, exporters will instead be able to ask Eximbank to guarantee market-rate loans obtained from private lending institutions, because the lower interest rates will now make these loans affordable.

* The loan guarantee increase proposed by the Administration is designed to accomodate this greater demand.

Questions and Answers

o Protectionism. Loan guarantees, no less than direct loans, are government subsidies to favored businesses. Shouldn't the U.S. Government set an example for the rest of the world and put a stop to protectionist devices of this kind.

-- The Administration is doing what it can to encourage all nations to gradually eliminate export subsidies.

* The success it has already achieved in this area has in part been based on our willingness to maintain an Eximbank program.

* In other words, once we show foreign governments that we will maintain a vigorous export finance program, they may be more willing to cooperate with us in phasing these programs out.

-- Until we reach the point where all countries agree not to subsidize exports, we must be prepared to do the same to protect our world market share.

o Welfare for the rich. Isn't the Eximbank program another case of "welfare for the rich," since half of Eximbank's direct loans have gone to seven giant corporations?

-- Many small companies benefit indirectly from Eximbank loans.

* Boeing, for example, has 3,500 subcontractors in 44 states.

-- More than 800 small companies benefit directly from Eximbank programs.

Questions and Answers.

- The capital crunch. If the federal government no longer provides direct loans, where will small businesses raise the capital they need to get started and to stay in operation?

  -- 99.7% of small businesses do not get SBA direct loans. The overwhelming majority of small businesses in this country succeed or fail without so much as a dime's worth of federal assistance.

  -- Some small business people arrange their own bank loans, but many rely on savings or on loans from friends and family to raise their working capital.

  -- The SBA will continue to provide significant amounts of loan guarantees and other assistance, especially to disadvantaged firms.

- Government isn't doing enough. Given the present state of the economy, shouldn't the federal government be doing more to help small business?

  -- The economic policies pursued by the Reagan Administration are already doing more for small business than any direct aid program could do.

  -- Tax reform.

    * The personal income tax rate cuts are enormously beneficial to small business.

      - The vast majority of small firms are sole proprietorships or partnerships.

      - That means that all the money the owners make through the business is taxed as personal income.

      - The 25% Reagan tax rate cut therefore allows small business people to keep significantly more of their earnings than they would otherwise have been able to do.

    * The provision to allow expensing of up to $5,000 in investment each year will further help small business raise capital.

    * The reductions in estate taxes allows family businesses to be passed from one generation to the next, instead of having to be sold for taxes when the owner dies.

  -- Regulatory reform.

    * Reducing red tape is especially helpful to small

RESEARCH & DEVELOPMENT

History.

The need to mobilize scientific and industrial resources for World War II, and the desire to avoid being outdone by Soviet advancements such as the launch of Sputnik in 1957, were prime catalysts in leading U. S. policymakers to devote greater attention and resources to scientific and technological research and development.

Today, some 23 federal departments and agencies are involved in various facets of research and development (R&D).

o **Programs.**

More than nine of ten R&D dollars is obligated by five key agencies:

-- Department of Defense (DOD).

* Supports R&D efforts largely related to advanced strategic and tactical military systems, basic research on such areas as materials and microelectronics, and advanced technology development in such areas as high-speed integrated circuits.

* Obligations for the conduct of R&D efforts at DOD are $23.2 billion in FY 1983.

-- Department of Energy (DOE).

* Supports the National Defense Program to develop and test nuclear weapons, the General Science Program of basic research in high energy physics and nuclear sciences, and an Energy Program focusing on long-term R&D.

* Obligations for the conduct of R&D efforts at DOE total $4.7 billion in FY 1983.

-- Department of Health and Human Services (HHS).

* Primarily conducts basic research in the biomedical sciences through the National Institutes of Health (NIH). Other parts of HHS conducting research are the Alcohol, Drug Abuse and Mental Health Administration; the Food and Drug Administration; the Centers for Disease Control; and agencies dealing with human services such as child abuse and quality of life for the elderly.

* HHS R&D obligations total $4.3 billion in FY 1983, $3.8 billion of which is devoted to NIH.

-- National Aeronautics and Space Administration (NASA).

* Pursues a vigorous program of space and planetary science, applications, and advanced technology for space technology and future aircraft.

* Obligations are $2.5 billion in FY 1983.

-- National Science Foundation (NSF).

* Supports basic research in engineering and the mathematical, physical and biological sciences to advance scientific knowledge.

* R&D obligations at NSF are slightly more than $1 billion in FY 1983.

-- Others.

* Several other agencies conduct or support R&D in various areas. These agencies include -- in order of R&D budget obligations -- the Departments of Agriculture, Transportation, Interior, Commerce, the Environmental Protection Agency, Nuclear Regulatory Commission, Veterans Administration, Agency for International Development and others.

* R&D obligations for these agencies total $3.1 billion in FY 1983.

o Costs.

-- In FY 1970, federal obligations for the conduct of R&D totaled $15.3 billion.

-- In FY 1980, federal obligations for the conduct of R&D totaled $31.7 billion.

-- In FY 1983, the level is estimated at $38.9 billion.

o **Administration action to date.**

-- Budgets for FY 1982 and 1983 shifted priorities for types of R&D supported by the federal government.

* Federal support for basic research in areas with long-term potential for technological developments and industrial applications has been progressively increased.

* Federal involvement in near-term development, demonstration and commercialization projects for civilian technologies was progressively reduced. The Administration considered this type of work -- particularly in the energy area -- to be more appropriately done by the private sector.

-- For FY 1982:

* President Carter requested $38.6 billion for the conduct of R&D.

* President Reagan requested $37.8 billion.

* Congress approved $36.4 billion.

-- For FY 1983:

* President Reagan requested $38.9 billion.

* Congress approved $38.9 billion.

The President's Proposals for FY 1984.

o Total federal R&D funding.

-- The President proposes to increase federal R&D funding by $6.9 billion to $47.8 billion, an 18% increase.

-- This funding increase will enable the federal government to boost support for basic research by 10%, from $6 billion in 1983 to $6.6 billion in 1984.

o Specific funding levels.

-- Department of Defense (DOD).

* Increase obligations for the conduct of R&D to $29.9 billion, an amount $6.7 billion greater than in FY 1983.

-- Department of Energy (DOE).

* Hold obligations at $4.7 billion, an amount about equal to the FY 1983 level.

-- Department of Health and Human Services (HHS).

* Increase obligations to $4.4 billion, an amount $100 million greater than in FY 1983.

-- National Aeronautics and Space Administration (NASA).

* Reduce obligations to $2.5 billion, an amount $33 million less than in FY 1983.

-- National Science Foundation (NSF).

* Increase obligations to $1.2 billion, an amount $180 million greater than FY 1983.

Justification (General).

- Provide adequate support for research and development activities, especially basic research efforts, which serve either of two critical needs:

  -- Federal government needs, such as a strong national defense, where the principal user of the R&D is the federal government.

  -- Broad national needs, such as agricultural and health research and the pursuit of long-term energy technologies, to help assure the strength of the economy and the quality of life for all people.

- Focus federal resources on appropriate R&D activities and away from those that are better undertaken by the private sector.

  -- DOE provides a clear example:

    * Obligations have been more sharply directed toward programs where there is clear need for federal involvement, including the pursuit of selected energy trechnologies such as magnetic fusion. These programs are long-term, high-risk efforts that are not economically feasible for industry to undertake.

    * At the same time, federal obligations for near term solar and other renewable energy technology programs are being eliminated because a solid technology base has been developed, making it possible for industry to offer these alternative energy sources in the marketplace.

Justification (Specific).

- DOD.

  -- The Defense R&D program is oriented toward the development of strategic and tactical weapons.

    * The Technology Base and Advanced Technology Development programs will continue to investigate promising new technologies. Efforts with Very High Speed Integrated Circuits, for example, are necessary for the further miniaturization of microelectronic devices.

    * Strategic Programs will continue to emphasise advanced ballistic missiles, ballistic missile defense, an advanced bomber, and an anti-satellite system.

* Tactical Programs are necessary to improve the capability of general purpose and theatre nuclear forces and allow the rapid deployment of these forces.

  - The Army is working on upgrades to the M-1 tank and Bradley Fighting Vehicle System and is increasing its efforts on remotely piloted vehicles.

  - The Air Force is developing a deep strike interdiction version of an existing fighter aircraft, a more reliable fighter engine and an air-to-air missile.

  - The Navy is developing a lightweight anti-submarine torpedo, a new longer-range anti-submarine missle and a new destroyer. Upgrades of current systems to improve detection, tracking and targeting are necessary to increase the capability of major systems now in production.

o DOE.

-- More than 50% of new obligations for basic research are earmarked to initiate a number of major new projects that are necessary to improve the nation's capacity for basic research. These new projects include:

  * Building a linear colliding beam accelerator to demonstrate the feasibility of new techniques for very high energy electron-positron collisions -- critical to developing such unlimited-potential energy technologies as nuclear fusion.

  * Initiation of a national advanced materials research center to improve the linkages among academic, national laboratory, and industry scientists for the future advancement of high-technology industries.

o NASA.

-- The $109 million reduction for space and terrestrial applications reflects decreasing obligations in two major projects that are nearing completion:

  * LANDSAT D, the fourth in the series of experimental Earth observation satellites, was launched successfully in July 1982.

  * The Earth Radiation Budget Experiment (ERBE) satellite will be launched by the Space Shuttle in 1984.

-- Now that the Space Shuttle is operational, it is no longer appropriate to classify all NASA programs as R&D; therefore R&D obligations for NASA exclude Space Shuttle production and operations, tracking and data acquisition activities, and related institutional support.

o HHS.

-- More than 87% of the Department's health-related R&D funds, and more than 93% of the Department's basic research funds, will be expended by the National Institutes of Health. These funds will allow for biomedical research necessary to improve the nation's capabilities for the prevention, diagnosis and treatment of disease.

-- Among the most significant activities to be undertaken by NIH are basic research on cancer chemoprevention, including studies of nutritional factors; diagnostic imaging; herpes simplex virus vaccine; the acquired immunodeficiency syndrome (AIDS); and the efficacy of interferon for controlling the frequency and severity of multiple sclerosis.

o NSF.

-- The Foundation's support for basic research is particularly important because this research complements the basic research programs of other agencies and assists in balancing federal support for promising research across all fields of science and engineering.

-- The 17% increase in NSF obligations for the conduct of R&D will:

* Provide emphasis on disciplines such as mathematics, materials science and electrical, chemical and computer engineering that can make important contributions to the long-term competitiveness of the U. S. economy, particularly in high technology dependent industries.

* Enhance research productivity by providing for the upgrading of research instrumentation, primarily on university campuses. One of the major problems today is the growing obsolescence of research instrumentation at the universities.

Questions and Answers.

o Reductions in near-term R&D. How does the Administration justify reducing obligations for near-term R&D and demonstration programs?

- -- It is the private sector, not the federal government, that has the expertise and capability to identify, fund and oversee the advancement of new technologies and bring them into the marketplace.

- -- The government's role is primarily to create an economic climate conducive to private investments. This can be accomplished through such measures as tax incentives, reductions in the regulatory burden, and clear delineation of federal government and private sector roles.

o Encouragement for private efforts. What has the Administration done to encourage more private sector involvement?

- -- Tax incentives.

  * The Economic Recovery Tax Act (ERTA) provides for a 25% tax credit for businesses that spend more on R&D than they did in each of three previous years on R&D.

- -- Clarifying anti-trust policies.

  * The Administration is promoting private sector arrangements for cooperative R&D ventures, such as limited research partnerships (LRP), which allow companies to pool their funds and benefit jointly from the results of the research conducted by private, federal or university labs without risk of violating antitrust laws.

o Result of Administration's efforts. What has been the outcome of the Administration's efforts to spur more private sector involvement in R&D?

- -- An NSF survey of major companies, published in September 1982, indicated that total industry spending for R&D:

  * In 1982, would be 10% above the level of the previous year.

  * In 1983, would be 8% above the 1982 level.

-- These estimates are thought to be low for two reasons:

* At the time of the survey, companies were not sure of the impact of the Administration's tax incentives on their own R&D budgets; now they have a better idea of the favorable effect.

* The economy is recovering faster than expected, which should further increase the level of industry R&D efforts.

o Military vs. civilian. Why is R&D for defense increasing sharply without a corresponding increase for civilian R&D? With the intense high technology competition from other countries, shouldn't a stronger emphasis be provided on direct federal support for civilian R&D (e.g., in electronics and transportation)?

-- Defense R&D is increasing because the U.S. has underinvested in this area for more than 20 years.

* There is grat strategic importance in maintaining technological advantage over potential adversaries.

* Defense is a federal government responsibility and DOD is the direct user of the results of R&D.

-- For civilian R&D to meet national needs, the federal government has two main responsibilities.

* It should provide a climate for technological innovation that encourages private sector R&D investment.

- The Administration is fulfilling this responsibility primarily by reducing government spending growth, regulation and tax rates.

- Thus, the Administration's R&D policy is part of its overall economic policy.

- The Administration is also encouraging greater cooperation among government, academia, and industry researchers.

* The government should focus support on areas where there is substantial prospect for significant economic gain to the nation, but where the private sector is unlikely to invest adequately because the benefits, in large measure, are not immediately "appropriable" by individual firms.

  - Thus, for example, the federal government supports basic research across all scientific disciplines but limits its spending on technology development to technologies requiring a long period of initial development, such as fusion power, where the risk is high but the payoff to the nation is potentially large.

  - This strategy is reflected in funding for R&D in the FY 1984 budget.

o Health R&D. Why do the R&D programs of the National Institutes of Health receive only a modest 2% increase in 1984.

-- The programs of NIH have increased significantly in recent years.

  * Between 1970 and 1980, they almost doubled -- in constant dollars.

  * Total growth between 1982 and 1984 is estimated at 12% -- again, in constant dollars.

  * NIH now provides more than one-third of the total federal support for basic research.

-- A decision was made to emphasize the support of basic research in the physical sciences and engineering in 1984 because advances in these fields are key to long-term economic growth.

-- Still, health and biomedical research, chiefly in NIH programs, remain the largest category of non-defense R&D.

SMALL BUSINESS

History.

The federal government had no comprehensive small business program until 1953, when Congress created the Small Business Administration (SBA). The SBA was first established on a temporary basis, and was made permanent when Congress passed the Small Business Investment Act of 1958.

The agency performs a variety of advocacy functions on behalf of small business, including identifying and analyzing small business problems. In terms of budget considerations, it provides direct loans and loan guarantees to assist small firms. It also provides subsidized loans to individuals and small businesses that are the victims of physical disasters, and offers special assistance to firms headed by handicapped persons, members of minority groups, other disadvantaged individuals, and women. The agency also helps small business obtain a fair share of federal government contracts.

Another small business program, targetted specifically to members of minority groups, is the Minority Business Development Agency (MBDA), which is administered by the Departemnt of Commerce. The MBDA was created by President Nixon in 1969.

o **Programs.**

-- The Small Business Investment Act defines a small business as one that is independently owned or controlled.

* In determining how "small" a small business must be to qualify for assistance, the SBA relies on specific criteria for different industries and different programs.

  - In the case of the retail industry, for example, a firm with less than $7.5 million in sales is considered a "small" business.

  - In the case of the wholesale industry, the cutoff point for SBA assistance is $22 million in sales.

  - In the case of a manufacturing concern, "small" is defined as having 250 or fewer employees, although in certain cases the figure is as large as 1500 employees.

-- The SBA offers loan assistance in the form of direct loans and loan guarantees.

* In recent years, about 90% of SBA loan assistance has been in the form of loan guarantees.

  - If a small business owner is without independent means, and cannot arrange a loan from a private bank, the SBA may assist him by, in effect, co-signing the loan.

* If a small business owner is unable to arrange a guaranteed loan, the SBA may lend him the money directly, if the funds are available.

-- Other forms of SBA assistance include:

* 100% guarantee of state pollution control bonds, the proceeds of which are used to enable small businesses to acquire pollution control equipment.

* 90% guarantee of losses incurred by surety companies on bid, payment, or performance bonds that are issued to small contractors.

* Physical disaster loans to rehabilitate or replace damaged homes and businesses.

-- SBICS and MESBICS:

* The Small Business Investment Company program (SBIC), which operates under the SBA, is a venture captial program sponsored by the federal government.

  - SBICs are private investment companies, licensed by the SBA, that help finance small companies.

  - The SBA assists SBICs by guaranteeing the sale of their debentures, which are purchased by the Federal Financing Bank.

  - These notes have terms of 3, 5, 7, or 10 years, must pay interest every six months, and must be repaid in full on maturity.

* A specialized type of SBIC is the Section 301(d) SBIC (popularly called MESBIC), which provides assistance to small firms owned by socially or economically disadvantaged persons.

  - Membership in a minority group is only one of a number of factors used in determining if an applicant is "disadvantaged."

-- The SBA's 8(a) Program.

* This program is designed to channel non-competitive

federal contracts to small businesses owned by members of socially and economically disadvantaged groups.

* Program participants receive management, technical marketing, and financial aid.

-- The Minority Business Development Agency contracts with public and private organizations to provide management and technical assistance to minority firms in 95 Standard Metropolitan Statistical Areas (SMSAs).

o Coverage.

-- In FY 1960, SBA made 3,325 direct loans and 382 guaranteed loans.

-- In FY 1970, SBA made 6,391 direct loans and 8,373 guaranteed loans.

-- In FY 1980, SBA made 6,586 direct loans and 24,933 guaranteed loans.

* 6,033, or approximately one-fifth of the total 31,519 loans, were made to members of minority groups.

-- As of October 1, 1982,-SBA had a total of 147,501 direct and guaranteed loans outstanding.

* This means that the agency is providing financial assistance to less than 1% of this nation's 16.5 million small businesses.

* SBA is also providing financial assistance to less than 2% of the nation's minority businesses.

o Costs.

-- When an SBA loan is repaid, the money can be lent to another borrower. The government loses money on SBA loans only when the borrower of a direct or guaranteed loan defaults on the payments.

* These losses, combined with the annual operating expenses and interest payments of SBA, are the direct federal costs.

-- A more relevant measure of the growth of the SBA program is the increase in program level, or the annual ceiling that Congress puts on the dollar amount of direct loans and loan guarantees that the SBA is permitted to make.

* In FY 1960, the ceiling for SBA direct business loans totaled $138 million; for guaranteed loans it was $11 million.

* In FY 1970, the ceiling for direct loans was $179 million; for guaranteed loans it was $378 million.

* In FY 1980, direct loans totaled $392.9 million; guaranteed loans, $3.2 billion -- a more than doubling in the first case, and a more than sevenfold increase in the second case, over the last decade.

-- The cost of the MBDA is reflected by its annual budget outlays; in FY 1980, these were nearly $56 million.

o **Administration Action to Date.**

-- For FY 1981:

* SBA.

- President Carter requested $346 million for direct loans and $4.2 billion in loan guarantees.

- President Reagan requested $304 million for di-direct loans and $3.4 billion in loan guarantees.

- Congress approved $367 million for direct loans and $4.5 billion in loan guarantees.

* MBDA.

- President Carter proposed increasing the MBDA's budget to $59 million.

- President Reagan proposed a 5% cut in MBDA's budget from its FY 1980 level.

- Congress authorized $60 million in 1981.

-- For FY 1982:

* SBA.

- President Carter requested $346 million for direct loans and $4.2 billion for loan guarantees.

- The Reagan Administration requested $260 million in direct loans and $3.2 billion in loan gurantees, about a 25% reduction from previous funding levels.

- Congress approved $225 million in direct loans and $3.0 billion in loan guarantees.

- In addition, the Reagan Administration secured the following reforms of the SBA program through the Omnibus Budget Reconciliation Act of 1981:

a) Increased SBA average direct loan interest rates to the current rate charged the federal government when it borrows.

b) Provided that the SBA must guarantee 90% of a loan of $100,000 or less. (For larger amounts, SBA could guarantee 70% to 90%).

* MBDA.

- President Carter proposed outlays of $62 million.

- President Reagan requested outlays of $57 million.

- Congress approved outlays of $49 million.

* Small business share of R&D.

- In July 1982, Congress passed the Small Business Innovation and Research Act, which sets aside a portion federal agencies' research and development budgets for contracts to be awarded to small firms.

- Small businesses will receive $45 million in federal assistance as a result of this legislation in FY 1984, and up to $500 million by 1989.

-- For FY 1983:

* SBA.

- President Reagan proposed to eliminate direct loans, continue to provide loan guarantees at the level of $2.7 billion, and continue the SBIC/MESBIC programs.

- Congress voted to continue direct loans at a lower level ($260 million for new loans of which $50 million was added in the recently enacted "Jobs Bill"), to provide loan guarantees at a level of $3.3 billion, and to continue the SBIC/MESBIC program.

* MBDA.

- President Reagan proposed total outlays of $60 million.

- Congress approved this level.

The President's Proposals for FY 1984.

o SBA credit assistance.

-- The Administration proposes to continue its policy of phasing out subsidized direct loans, except for $41 million to purchase the debentures of MESBICS.

-- In 1984, the President proposes that 98% of SBA's credit assistance will be in the form of loan guarantees.

* The guaranteed business loan program will be maintained at FY 1983 proposed levels.

* The proposed total guaranteed loan business assistance is $2.8 billion ($2.65 billion in guaranteed business loans, and $150 million to guarantee pollution control bonds.)

* SBA loan guarantees will be gradually reduced after 1984, to $1.2 billion in 1987.

-- The President proposes that the private sector bear a greater portion of the risk for guaranteed loans.

* Currently, the SBA guarantees up to 90% of private loans up to $500,000.

* The Administration is proposing to reduce that to 70% for loans to members of non-disadvantaged groups, so the private lender will bear 30% of the risk.

* SBA has implemented a pilot program where SBA will guarantee 75% of loans that are processed solely by the banks.

o Minority business assistance.

-- Minority business assistance provided by the Department of Commerce and SBA is proposed to continue at the 1983 level of over $100 million.

-- SBA's 8(a) Program.

* The FY 1984 budget includes $42 million in funding to assist small firms owned by members of disadvantaged groups.

* This program will assist these firms in obtaining 4,600 contracts in FY 1984, and will provide management assistance to 10,300 firms.

* This is the same program level as last year, but with this difference: Beginning in FY 1984, 10% of MBDA's program level would be financed through private sector cost-sharing, gradually increasing to 25% by 1987.

  - Private sector cost-sharing means that the management and technical assistance that the federal government provides to minority-owned businesses through contracts with public and private organizations would no longer be provided at no charge.

  - In effect, a 10% "user fee" would be levied, and this would gradually be increased to 25%.

-- In addition to credit and management assistance, the Administration has raised the target value of federal procurement contracts to be awarded to minority businesses from $11 billion over 1980-82, to $15 billion over 1983-85, a 37% increase.

Justification.

o Credit assistance.

-- Less than 2% of small businesses receive any type of federal assistance through SBA.

* Subsidized direct loans create an unfair competitive advantage for a few firms over others that are equally deserving.

* Elimination of direct loans will affect less than 0.3% of this country's small businesses.

-- Reducing the extent of federal loan guarantees from 90% to 70% will encourage private lenders to improve the quality of their loans, and decrease the likelihood that the Federal Government will lose money through default.

* Reducing Federal intervention in the credit market will actually increase the supply of credit available to private borrowers, especially to those who could succeed on their own, but have been unable to secure loans in the past because of extensive federal absorbtion of credit.

* As interest rates continue to decline, small businesses will be able to obtain credit more easily.

* The federal government will continue to provide credit assistance to disadvantaged individuals.

o Minority business assistance.

-- The Administration <u>remains committed</u> to ensuring that minority-owned businesses have an <u>equal opportunity</u> for growth and development.

-- The shift from direct assistance to indirect assistance will <u>discourage a tendency</u> on the part of some minority firms to <u>depend on federal aid</u> for survival, and will help <u>eliminate the perception</u> on the part of some financial institutions that <u>minority enterprises are higher credit risks</u>.

Questions and Answers.

o The capital crunch. If the federal government no longer provides direct loans, where will small businesses raise the capital they need to get started and to stay in operation?

-- 99.7% of small businesses do not get SBA direct loans. The overwhelming majority of small businesses in this country succeed or fail without so much as a dime's worth of federal assistance.

-- Some small business people arrange their own bank loans, but many rely on savings or on loans from friends and family to raise their working capital.

-- The SBA will continue to provide significant amounts of loan guarantees and other assistance, especially to disadvantaged firms.

o Government isn't doing enough. Given the present state of the economy, shouldn't the federal government be doing more to help small business?

-- The economic policies pursued by the Reagan Administration are already doing more for small business than any direct aid program could do.

-- Tax reform.

* The personal income tax rate cuts are enormously beneficial to small business.

- The vast majority of small firms are sole proprietorships or partnerships.

- That means that all the money the owners make through the business is taxed as personal income.

- The 25% Reagan tax rate cut therefore allows small business people to keep significantly more of their earnings than they would otherwise have been able to do.

* The provision to allow expensing of up to $5,000 in investment each year will further help small business raise capital.

* The reductions in estate taxes allows family businesses to be passed from one generation to the next, instead of having to be sold for taxes when the owner dies.

-- Regulatory reform.

* Reducing red tape is especially helpful to small

business owners who cannot afford the legal and clerical assistance they need to cope with federal paperwork.

-- Inflation.

* The two-thirds drop in the rate of inflation that has occured since President Reagan took office helps small businesses, which cannot offset increased operating costs by raising prices as easily as can large corporations.

-- Interest rates.

* The prime rate is now less than half what it was in January 1981; this makes it much easier for small businesses to borrow.

o Disadvantaged minorities. But don't members of minority groups still need special assistance in starting their own businesses.

-- They often do. That is why the Administration is not reducing funding for business assistance programs that help the disadvantaged.

-- In the case of federal-procurement, the Administration is actively working to ensure that minority-owned businesses get a greater amount of federal contracts.

o 8(a) graduation. Then why is SBA "graduating" so many minority businesses from its 8(a) program? Isn't that just a polite euphemism for cutting off their government contracts?

-- The law was amended during the last Congress to require time limits (which vary according to the type of business) on participation in the program.

-- This change was made in order to give more minority-owned businesses a chance to get government contracts, and to ensure that these firms not become totally dependent on the government for their incomes.

-- The SBA is making every effort to ease the transition for those firms whose time limits are now expiring.

-- MBDA is also implementing a transition program, and the Secretary of Commerce is encouraging major government contractors to subcontract with minority-owned firms.

TRANSPORTATION

History.

Significant federal involvement in transportation issues dates from the middle of the last century, when Congress subsidized the extension of railroad lines nationwide through land grants. This was followed by the creation of the first independent federal regulatory agency, the Interstate Commerce Commission, in 1887. The federal role further expanded as first motor and then air transportation revolutionized interstate commerce.

The present interstate highway system is the product of the Federal Highway Act of 1956. This act authorized the expenditure of $32 billion over the ensuing 13 years for the construction of a 41,000 mile interstate highway system.

In 1966, Congress consolidated the bulk of federal transportation agencies -- including the Coast Guard, the Federal Aviation Administration, the Federal Highway Administration, the National Traffic Safety Agency (forerunner of the National Highway Traffic Safety Administration), and the Urban Mass Transportation Administration -- into a single, cabinet-level department: the Department of Transportation (DOT). The Maritime Administration was transferred from the Department of Commerce to DOT in August, 1981.

o **Programs.**

-- Ground transportation.

* Highway systems (Federal Highway Administration).

  - The Federal Highway Act provided for gas taxes and other highway user items to be paid into a Highway Trust Fund to finance the system.

  - This fund is administered by the Federal Highway Administration (FHWA).

  - FHWA is in charge of providing grants to the states for federal highway planning, construction, maintenance, and improvement.

* Highway safety (National Highway Traffic Safety Administration).

  - The National Highway Traffic Safety Administration (NHTSA), was established by the Highway Safety Act of 1970.

  - NHSTA is charged with promulgating and enforcing federal safety and fuel economy standards, and supplementing state highway safety standards.

* Mass transit (Urban Mass Transit Administration).

  - The Urban Mass Transit Administration (UMTA) was established by the Urban Mass Transit Act of 1964

  - UMTA administers federal aid for mass transit systems.

  - This aid is dispensed through a variety of formulas (based on factors including population, bus and rail vehicle miles, and passenger miles) and through discretionary grant programs.

  - The majority of funds are reserved for capital projects, such as construction and rehabilitation of bus and rail facilities.

  - Grants are also provided for operating assistance, planning activities, demonstration projects, and research.

* Railroads (Federal Railroad Administration).

  - The Federal Railroad Administration (FRA) was created pursuant to the Department of Transportation Act of 1966.

  - The FRA administers federal rail safety laws and issues regulations; it also administers grants, direct loans, and loan guarantees to certain railroads -- including the Consolidated Rail Corporation (Conrail) and the National Railroad Passenger Corporation (Amtrak) -- shipping groups and state and local governments; and owns and operates the Alaska Railroad.

* Regulation (Interstate Commerce Commission).

  - The Interstate Commerce Commission (ICC), regulates interstate surface transportation, including trains, trucks, buses, inland waterway and coastal shipping, and freight forwarders.

  - The ICC is authorised to ensure that the carriers it regulates will provide the public with rates and services that are "fair and reasonable."

-- Air transportation.

* Airways and airports (Federal Aviation Administration).

  - The Federal Aviation Administration (FAA), created in 1958 as the Federal Aviation Agency, is charged with protecting air safety.

- It promulgates and enforces rules and regulations relating to the manufacture, operation, and maintenance of aircraft, and to the training and certification of pilots.

- It manages the nation's air traffic control system, and also the Airport and Airway Trust Fund, which finances airport development, modernization of the FAA capital plant, and a portion of FAA operating costs. Federal revenues received from airline tickets and airport user fees are statutorily earmarked for deposit into Airport and Airway Trust Fund.

* Aeronautical research and technology (NASA).

  - The National Aeronautics and Space Administration (NASA) is an independent federal agency established by Congress in 1958.

  - NASA's aeronautical research and technology programs are designed to increase the safety, efficiency, and performance of civilian and military air transportation, and to maintain U.S. leadership in aeronautical technology.

* Air carrier subsidies.

  - This program was instituted to ensure that smaller communities would not abruptly be denied air carrier service in the wake of airline deregulation.

* The Civil Aeronautics Board (CAB) is an independent government agency created by Congress in 1938 to regulate the civil air transport industry.

  - Deregulation of the airline industry has been in progress since 1978. The Board's major remaining responsibilities are to regulate international aviation and to administer an airline subsidy program.

-- Water Transportation.

* Marine safety and transportation (Coast Guard).

  - The Coast Guard was established by Congress in 1915.

  - Coast Guard services include search and rescue, maintenance of navigation aids, enforcement of maritime laws, and other activities.

* Ocean shipping (Maritime Administration).

  - The DOT's Maritime Administration has traditionally provided two types of subsidies to assist the U.S. merchant marine and shipbuilding industry.

  - Operating subsidies offset the higher costs of operating U.S. flag vessels.

  - Construction subsidies offset the higher costs of building vessels in U.S. shipyards.

* Regulation (Federal Maritime Commission).

  - The Federal Maritime Commission was established in 1961.

  - The commission grants antitrust immunity to ocean common carriers in the waterborne U.S. foreign trades and regulates rates in the domestic offshore commerce of the United States.

o **Program Changes.**

-- In recent years there has been a pronounced trend toward deregulation of transportation services.

  * In 1978, Congress enacted legislation to deregulate the airline industry, and abolish the Civil Aeronautics Board in 1985.

  * In 1980, Congress enacted two bills to reduce regulation of the trucking, household mover, and railroad industries.

  * In 1982, Congress enacted a bill to reduce regulation of the bus industry.

o **Costs.**

-- Total outlays.

  * The government spent $6.9 billion on transporation in FY 1970.

  * The government spent $23.4 billion on transportation in FY 1981.

-- Highways and Highway Safety.

  * The government spent $4.5 billion in FY 1970.

  * The government spent $9.4 billion in FY 1981.

-- Mass transit.

* The government spent $106 million in FY 1970.

* The government spent $3.9 billion in FY 1981.

-- Railroads.

* The government spent $17 million in FY 1970

* The government spent $3.7 billion in FY 1981.

-- Air transportation.

* The government spent $1.3 billion in FY 1970.

* The government spent $3.9 billion in FY 1981.

-- Water transportation.

* The government spent $910 million in FY 1970.

* The government spent $2.42 billion in FY 1980.

o Administration Action to Date.

-- For FY 1982:

* President Carter proposed total outlays of $21.5 billion for transportation programs, including:

  - Highways and highway safety, $8.9 billion.

  - Mass transit, $3.8 billion.

  - Railroads, $1.8 billion.

  - Air transportation, $4.2 billion.

  - Water transportation, $2.8 billion.

* President Reagan proposed spending a total of $20.0 billion, including:

  - Highways and highway safety, $8.5 billion.

  - Mass transit, $3.8 billion.

  - Railroads, $1.7 billion.

    a) The Administration further proposed that Conrail be sold immediately, and that the subsidy to Amtrak be reduced by half a billion dollars from the level proposed by the Carter Administration.

- Air transportation, $3.5 billion.

- Water transportation, $2.5 billion.

* Congress approved a total of $21.2 billion, including:

  - Highways and highway safety, $8.9 billion.

  - Mass transit, $3.6 billion.

  - Railroads, $2.0 billion.

    a) Congress postponed the sale of Conrail until after June of 1983, and reduced the subsidy to Amtrak to $400 million less than the Carter proposal.

    b) Congress accepted administration proposals that Amtrak be required to cover 50% of its costs with revenues, and that it be allowed to terminate service without congressional approval in certain circumstances.

  - Air transportation, $3.8 billion.

  - Water transportation, $2.9 billion.

-- For FY 1983:

* President Reagan proposed total outlays of $19.6 billion for transportation, including:

  - Highways and highway safety, $8.6 billion.

  - Mass transit, $3.2 billion.

  - Railroads, $1.2 billion.

  - Air transportation, $4.0 billion.

  - Water transportation, $2.6 billion.

* Congress approved $21.8 billion, including:

  - Highways and highway safety, $9.0 billion.

  - Mass transit, $3.9 billion.

  - Railroads, $1.6 billion.

  - Air transportation, $4.2 billion.

    a) Increased funding for air transportation programs derived from the Airport and Airway Improvement Act, which Congress passed in 1982.

b) Essentially, this act provided for modernization of the FAA capital plant and airport improvements by increasing airport user fees.

c) Specific provisions included increases in airline ticket taxes and taxes on aviation fuels.

- Water transportation, $3.1 billion.

The President's Proposals for FY 1984.

o The Reagan Administration proposes total outlays of $25.1 billion for transportation, an increase of 15% over 1983 levels, including:

-- Highways and highway safety, $12.5 billion.

-- Mass transit, $3.8 billion.

-- Railroads, $1.2 billion.

-- Air transportation, $4.8 billion.

-- Water transportation, $3.0 billion.

o Highways and mass transit.

-- In December, 1982, Congress passed the Surface Transportation Assistance Act.

-- Highways.

* This legislation provides for increased expenditures for completing and preserving the interstate highway system and for repairing highways and bridges.

- Funding for interstate completion and rehabilitation will increase 64% over FY 1982 and 8% over FY 1983 levels.

- Interstate rehabilitation will show the greatest percentage increase: 200% over FY 1982 and 25% over FY 1983.

* To finance these improvements, the legislation increased the highway motor fuels tax from 4 to 9 cents per gallon -- the first such increase since 1959.

* It also restructured other highway user taxes to make them more equitable.

- Users who cause the heaviest damages to highways must now pay a greater share of the taxes required to maintain them.

* The restructuring of these taxes made possible the elimination of a number of smaller taxes, such as tire and tube taxes.

-- Mass transit.

* The Surface Transportation Assistance Act also sets aside 1 cent of the 5-cent per gallon motor fuel tax increase for urban mass transit.

o Railroads.

-- In keeping with the Administration's policy of reducing federal responsibility for rail activities unrelated to safety, federal aid is being reduced or eliminated in conjuction with continued efforts to deregulate the railroads so that they may be self-supporting.

-- In December 1982, Congress passed Administration-backed legislation authorizing transfer of the Alaska Railroad to the State of Alaska. Federal outlays for the railroad are being eliminated in keeping with efforts to complete the transfer in FY 1983.

o Air transportation.

-- The 1982 increase in airport user fees will continue to finance the multi-year FAA capital modernization program, airport improvement grants and an increased share of FAA operations and maintenance costs.

o Water transportation.

-- The Administration requests approximately the same amount for this item in FY 1984 as in FY 1983.

-- The Administration proposes again that user fees be charged to cover some services presently provided by the Coast Guard at no cost to the beneficiaries.

Justification.

o Highways.

-- The interstate highway system will be funded at a level that will lead to completion of the system by the early 1990s.

-- Rehabilitation of the aging highway system, which carries half of all interestate traffic, will receive high priority, as will the repair or replacement of unsafe highway bridges, so that further deterioration of the system will be halted, and existing decay will be repaired.

* It is much less expensive to repair than to replace a highway.

o Mass transit.

-- Directing federal aid toward capital funding of urban mass transit systems will help preserve the aging fixed-rail systems that are beginning to fall into disrepair in many cities.

-- Federal operating assistance will be reduced.

* These funds have previously supported marginally-effective transit services that would not have been undertaken if federal aid had not been available.

* Operating subsidies have enabled fares to remain artificially low; those who use these transit systems, not the nation's taxpayers, should pay for this privilege.

* Federal regulations attached to this assistance have increased operating costs.

o Railroads.

-- Passenger railroads, operating with federal subsidies, have become extemely inefficient, forcing federal subsidies even higher.

-- Reducing both federal subsidies and regulation further will continue the on-going process of successfully putting the railroads back on a sound financial footing.

o Air transportation.

-- The FAA workload is projected to increase by 60% to 80% between 1981-2000.

-- Upgrading and expanding the aviation infrastructure is essential to meet anticipated demand through the year 2000.

o Water transportation.

-- Certain Coast Guard functions, such as rescue operations and navigation aids, principally benefit certain distinct groups, such as pleasure-boat owners.

-- It is only fair that these special beneficiaries pay for the cost of these services through user fees.

Questions and Answers.

o Road building. How can you guarantee that the funds provided for road repair are sufficient? Are't road conditions much worse than we are led to believe?

-- Based on analysis of a Department of Transportation study, the new 5 cents per gallon motor fuels tax is more than sufficient to meet highway needs at the historic level of Federal support.

* The DOT analysis concluded that a 3.7 cent increase was sufficient, 0.3 cents less than was approved (subtracting one cent for mass transit.)

* The analysis assumed maximum need; there was no wishful thinking involved.

-- States will still be called upon to contribute a substantial share of the costs of reparing state highways and bridges, where the majority of road disrepair problem exists.

o Trucks and Taxes. Are higher truck taxes unfair to heavy trucks?

-- No. In the past, heavy trucks have been paying only about 60% of the costs they impose on the system.

-- Even when the new taxes are fully implemented, the heaviest trucks will still pay only about 73% of the costs they impose. Trucks will still be subsidized by other highway users.

o Mass transit responsibility. Doesn't the federal government have an obligation to fully fund mass transit systems?

-- The Administration has consistently maintained that federal aid to mass transit should be for capital assistance, rather than operating assistance.

* Operating costs should be borne by those who actually use the mass transit systems.

* They are also more properly a matter for state and local concern.

-- Federal operating subsidies are wasteful and counter-productive.

* These funds have supported marginally-effective

transit services that would not have been provided at all if federal assistance were not available.

* Operating subsidies have also kept fares at artificially low levels.

o Mass transit funding. Isn't the President's mass transit budget just a shell game? Hasn't he backtracked on promises made during the gas tax debate to increase mass transit funding?

-- The President has never altered his view that federal aid in this area should be directed toward capital assistance rather than operating assistance.

* Operating subsidies will be gradually reduced, but capital assistance will increase 44% in 1984 over 1982 levels.

* In 1983 and 1984, $1.8 billion dollars in federal aid will be made available for capital projects. (This will especially benefit cities with aging fixed-rail systems, as funds are directed toward their long-deferred captital needs.)

-- Most important of all: Thanks to the Administration's motor fuels tax, transit systems will have for the first time a dedicated source of revenue.

* One cent out of every nickel raised under this tax is earmarked for mass transit; systems no longer must be dependent on whatever amount happens to be appropriated in a given year.

* The Administration's budget request for mass transit is based on Treasury Department estimates of the amount of revenue that will be generated under the new tax.