Journal of Clinical Child Psychology
1982, Vol. 11, No. 1, 89-93

The Children's Defense Fund Analyzes the Impact of the Reagan Budget Cuts on Children

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It has been an extremely rewarding opportunity to participate in and to comment on the Children's Defense Fund's National Strategy Conference on the Federal Budget: Children and Families. Children's Defense Fund is a national advocacy group that has systematically and continually been a strong voice for children. At this conference, Children's Defense Fund called together all child advocacy groups to rally around the following goals:

1. Maintaining the existing federal framework of critical children's programs that are demonstrably cost effective and successful, or are designed to meet basic survival needs and ensure minimal opportunity for the most vulnerable children in our society that will not otherwise be met.
2. Stopping the across-the-board massive budget assault on entitlement programs designed to help the poor and young.
3. Joining a broader coalition of interests to fight for a fair budget.

To aid in this broad scale advocacy thrust, Children's Defense Fund prepared a 200 page budget analysis and alternative recommendations entitled, *A Children's Defense Budget: An Analysis of the President's Budget and Children.*

The Children's Defense Fund is to be highly commended for its careful analysis of how the proposed Reagan Budget for 1982-83 will affect the children of this country. Their detailed study documents how the most poor and the most needy will suffer the biggest losses in services; in addition, the study clearly documents the "luxuries" that remain in the budgets of the Department of Defense, primarily, and other federal programs. The following examples should be sufficient to call child advocates to action:

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President Reagan proposed an additional $3 million cut in the childhood immunization program for FY 1982 which would eliminate immunizations for 75,000 children at risk. In FY 1983 he plans to cut $2 million more. The Defense Department spends $1.4 million on shots and other veterinary services for the pets of military personnel. Additional millions are spent on the transportation of military pets when personnel are transferred. If the veterinary benefits for military pets were eliminated, 35,000 low income children could be immunized instead.

For FY 1981 and FY 1982, President Reagan rescinded and proposed cutting a total of $23.9 million from the Preschool Incentive Grants for handicapped children which serves more than a quarter of a million handicapped 3 to 6 year olds. In FY 1982 he is proposing to effectively eliminate the program through a block grant and further cuts. These children are given early instruction in learning and communication skills so that they will be able to benefit from later schooling. The General Accounting Office has estimated that almost half of all messages sent over Defense department teletype nets are routine non-priority messages better sent by mail at a savings which would total $20 million a year. The excess teletype machines could be donated to programs for deaf children, thus further increasing savings.

President Reagan eliminated the Child Nutrition Equipment Assistance program that helped child care centers and schools in low-income areas buy the kitchen equipment needed to serve hot lunches and breakfasts to eligible low-income children and saved $15 million. The Army plans to spend $58 million to give away industrial machines, most of them new (*e.g.* five 2,000 ton capacity, four-stage mechanical forging presses, 166 power lathes, etc.), to defense contractors free. The $58 million is for the Army to pay to move and install the equipment. If it sold the equipment instead on the open market, and returned the proceeds to the Treasury, perhaps the $58 million dollars and more could be put back into the school lunch program which about 2000 schools have eliminated because of budget cuts.

The State of Virginia has fewer than 160 full time homemaking aides serving more than 2,500 aged, blind, disabled persons and families with handicapped children at home. The Pentagon has 300 personal servants tending to fewer than 300 senior officers, none of whom reports himself seriously disabled. Virginia's program costs about $1 million a year. The Pentagon's program costs over $5 million a year. President Reagan cut Virginia's program by more than a third; he increased the Pentagon's program by 15 percent.

Secretary of Defense Weinberger has a private dining room at the Pentagon at which only about 100 persons are eligible to dine. It has a staff of 19 and each meal served costs the diner an average of $2.87 and the taxpayers an additional $12.06. President Reagan forced the low-income children of working mothers in child care centers to give up their mid-morning supplement of juice and crackers. Each time Secretary Weinberger or one of his select associates has lunch, 40 of those low-income children must go without orange juice or milk. More than 1 million mid-morning supplements for low-income children now to be lost each year could be restored if Secretary Weinberger and his colleagues ate in other Pentagon dining rooms, or contracted with a private food company to run his private dining room on a self-sustaining basis. If four other Pentagon executive dining rooms (one each for the Army, Navy, Air Force, and the Joint Chiefs) were also run on a self-sustaining basis, this would provide an additional 3.7 million mid-morning servings of juice to low-income children in Head Start and day care centers.

To aid the advocacy process, the Children's Defense Fund has proposed alternative cuts in the federal budget. Although those who advocate for children may not agree with all of the recommendations, there are a sufficient number from which to select, to make the call to Congress that budget cuts should be more fairly distributed, and that there are considerable protections afforded special interest groups that have not been afforded children, who used to be called "our most precious national resource" — a term not heard much any more! The alternatives proposed by Children's Defense Fund offer many avenues for trimming the budget and reinstating some of the children's programs as follows:

Alternative Budget Options

White House Executive Residence Operations

Although it's a small thing, we feel it important for all of us to tighten our belts. Since President Carter's last full year, direct residential expenses have increased annually by $800,000. While we want President and Mrs. Reagan to live comfortably, we would prefer to use the proposed annual increase toward replacing 40 percent of the child abuse prevention services which the President proposes to cut. *Savings: $800,000.*

Agriculture Credit Insurance Fund

Originally this program made very low-interest loans to low-income family farms, and more expensive, but still subsidized, loans to more prosperous farmers. President Reagan intends to continue the program, but to charge all borrowers the Treasury rate. Coupled with his tax program, this has the perverse effect of charging the poorest farmer about 10.5 percent and the wealthiest 5.25 percent effective annual interest after taxes. We suggest charging low income family farmers (150 percent of the poverty level) 5.25 percent and letting the rest go. The savings should cover the President's proposed reductions in the supplemental feeding program (WIC). *Savings: $300 million.*

Tax Breaks

For Coal and Iron Ore: Whenever a landowner receives payment for coal or iron ore extracted from his, her or (in the case of a corporation) its property, the money is not taxed as income. Instead it is treated as a capital gain, and taxed at a much lower rate. The justification is quite straightforward: if the land were sold with the coal or iron ore still in it, the sales value attributable to the minerals would only be taxed at the capital gains rate, so why not tax it at that rate when the mineral are sold without the land. The reason we should not give the special tax break is even more straightforward: nobody else gets IRS to agree to "what if" tax rates. *Savings: $140 million.*

For Oil: Elimination of the depletion and expensing tax breaks for oil. *Savings: $4.2 billion.*

For "Exhaustive" Resources: Elimination of tax breaks for manufacturers of a host of "exhaustible" resources: sand, rock, clam shells, etc. *Savings: $465 million.*

For Farmers: Farmers not only benefit from direct aid and federal loans but also from a wide range of special tax provisions that lower the taxes they pay. Some of these provisions help keep family farms in the family when the children inherit them and should be continued. But three agricultural tax benefits work to the advantage of corporate or foreign owners and, in any case, confer little help on small family farms. These three benefits allow expensing of certain investments (as in the case of oil), capital gains treatment of certain income (as in the case of timber), and a unique deduction for the dividends paid by agriculture cooperatives — the dairy industry in disguise. We propose replacing all this by modest direct subsidies to small family farms at less than one tenth the present cost. *Savings: $1.3 billion.*

Consumer Debt: Interest paid to consumer debt (*i.e.* "time payments" and credit card charges, auto loans, and personal borrowings) is deductible from taxable income if the taxpayer itemizes. The majority of taxpayers — and nearly all those who rent rather than own a home — cannot itemize and so receive no benefit from the deduction. Those who do itemize receive a tax reduction that gets bigger as their income gets higher. The result is perverse. If two families both pay $1,000 of interest on an auto loan, but one makes under $20,000 and the other over $200,000, the lower income family will get back about $200 and the higher income family will get back $500. However fewer than half the families with under $20,000 income could itemize at all, while over 98 percent of the $200,000 group will itemize. We are subsidizing consumer debt among exactly those whose savings the Reagan Administration tells us will lead to increased investments. Having already provided tax breaks to give greater incentive to save among the rich, we should now change them further to decrease their incentives to spend rather than invest. We propose to eliminate the deduction and replace it with a temporary tax credit towards the purchase of a new automobile used to commute to work; the credit to decline in value from $400 at $10,000 income to zero at about $25,000, and end when the recession does. *Net Savings: $4 billion.*

Irrigation Water Prices

The federal government sells irrigation water at about one-sixth of its production cost and at roughly 10 percent of the prevailing local market price. We are assuming only half the current level will be sold. *Savings: $700 million.*

Rivers and Harbors

The President wants to spend $2.6 billion for new construction and current operations of Civil Engineer projects. Congress is doubtless going to spend more. The pity is that this is one program that ought long ago to have been turned back to the states. We propose that all but $600 million be turned back to the states, and states be given the right to impose whatever level of user fees they deem appropriate. *Savings: $2 billion.*

Clinch River Breeder Reactor

The price of this project has tripled since 1969, and the Department of Energy has already proposed eliminating it since it can no longer provide an economic source of power. *Savings: $200 million.*

Federal Crop Insurance Corporation

Private enterprise does a wonderful job providing insurance to those able to afford it. Since the Federal Crop Insurance Act of 1980, we have made a good start in turning crop insurance over to private insurers. However, while the actual insurance for crops is placed with private insurers and reinsurance corporations, the federal budget covers all sales, underwriting, and servicing costs, plus pays 30 percent of every farmer's or agricultural corporation's premiums. That costs $700 million a year. We know that farm income is low now and farmers would be unable to absorb the price increase needed to cover the true cost of crop insurance. But since our poorest families have far less income than farmers, and can hardly afford the increase in the cost of food stamps from 30 percent to 35 percent of their income, we propose that Congress reject the food stamp increase entirely as well as put off increasing crop insurance premiums until economic conditions permit. *No savings.*

Livestock Grazing Fees

In FY 1976 the Forest Service earned about $1.23 per head for the livestock allowed to graze on the national grasslands. In FY 1983, the charge will be about $1.18 per head. Each animal grazes for about 1.5 months. We think about $10 a head per month will still be cheaper to the ranchers than lot feeding and less than most private rangelands would charge. It would bring in just enough money to restore the Summer Food program for children to its original level. *Savings: $136.8 million.*

Special Tax Breaks

For Timber: Income derived from the sale of timber is treated as a long-term capital gain, even when it would meet the IRS's test for ordinary income. About three quarters of the benefit goes to lumbering corporations and about one quarter to individual landowners. Presumably the free market is best able to grow trees when government interference is at a minimum; thus the special provisions for capital gains treatment of timber income should end. *Savings: $670 million.*

For Corporations: Every corporation gets a special tax break on its first $100,000 of profit. This was meant to help small businesses. Instead it goes to every corporation, including all our profitable giants. The special tax break was instituted in 1979, and since then small business bankruptcy rates have almost doubled. Clearly we have a program that must be redirected to serve only the neediest, and serve them efficiently. We propose that the current tax break be converted to a credit that will phase out once corporate profit reaches $100,000, and that the corporate tax rate be increased by 1 percent to cover the cost of the declining credit. *Savings: $8.5 billion.*

For Artificial Corporations: Elimination of special tax deferrals for artificial corporations, called domestic international sales corporations (DISC's). Originally meant as a subsidy to U.S. exports, the program has primarily benefitted manufacturers of aircraft and defense equipment with little or no discernable impact on U.S. exports. *Savings: $1.6 billion.*

Food Wastes

It is difficult to describe the marketing order system briefly, but the essence is that the federal government restricts the amount of crops that can be sold for human consumption, and thereby raises farm prices. Excess crops are disposed of in ways that often waste food. Among the crops covered are: almonds, avocados, cherries, cranberries, dates, filberts, hazelnuts, limes, melons, nectarines, papayas, raisins, spearmint oil, and walnuts, besides those vegetables and fruits that play a larger role in our diet. Above all, there is milk, and related dairy products. The total cost of the system to consumers, including both the federal direct costs and subsidies, the increase in food prices, and inefficiencies imposed on farmers by the enormous tangle of paperwork and red tape have ranged from $200 million to $2 billion a year. We will assume a savings of $500 million, which is more than enough to restore the cut proposed for the Social Services Block Grant. *Savings: $500 million.*

Agricultural Subsidies

By a combination of direct purchases and offerings of nonrecourse loans, we subsidize sugar and tobacco. Each year roughly $1 billion in new nonrecourse loans are issued. If prices are high, the loans are paid off. If prices are low, the government keeps the commodities and the farmers keep the money. Sugar and tobacco are bad for children's health. We would rather put the money into Medicaid. *Savings: $1 billion, varying with farm prices.*

Corporate Lease Provisions

Elimination of new corporate lease provisions in the Economic Recovery Act for corporations not in economic trouble. *Savings: $3 billion.*

Petroleum Taxes

Petroleum prices have temporarily stabilized and we are in danger of losing our momentum toward the energy conservation which remains essential for our national security and future economic stability. It is particularly important that energy prices rise smoothly, and not by lags and great leaps. For each 25 cents tax imposed on a barrel of refined petroleum products, prices increase by about 1 percent. We propose such a tax, to be increased by 25 cents in years when energy prices lag. It can be repealed in the event of another oil crisis. This year's yield from such a tax could more than restore energy assistance cuts for low-income families. *Savings: $1.45 billion.*

Food Stamps for Military Personnel

Only about 1 percent of the current military personnel would be eligible for food stamps, and they are primarily low-paid enlisted persons with large families. However, 1 percent of almost 2 million enlisted persons is about 20,000 families. In fact, in 1980, almost $23 million worth of food stamps were cashed in military commissaries alone, and that must be only a portion of the total received by military families. We propose that all food stamp allotments to current military personnel, military retirees, and disabled veterans and their widows be transferred to the Defense Department Budget. *Transfer: $50 million.*

Military Housing

The Defense Department operates almost 300,000 units of family housing. But military families are not assigned housing on the basis of need. Low-ranking enlisted personnel (under grade E-4, and E-4s with less than two years of service) are not eligible regardless of the size of their families. Higher-grade enlisted personnel (E-4 through E-6) are given lower priorities than officers and senior NCOs regardless of need. Finally, ranking officers (O-4 or -5 and up) are given three-bedroom houses even if they have no dependents at all. Since military housing allowances for low-grade personnel are also based in part on military pay grade, it is exactly the families excluded from military housing who are least able to afford private housing. The GAO has estimated that among the military families ineligible for military housing, 61 percent were living in substandard units or paying more than 25 percent of their income (including allowances) for housing, or both. In a separate study, GAO has estimated that almost 30 percent of all federally subsidized (non-military) housing near five U.S. Army military bases were occupied by these military personnel. The Defense Department cannot find the documents that first established these policies — issued before World War II — and no longer knows why it has them. We propose that they assign military housing on the basis of need — regardless of rank — and that DOD reimburse local housing programs for all federally subsidized housing occupied by military families. *Transfer: $1 billion.*

Double Salaries for Military Reservists

Elimination of double civilian and military pay to military reservists who are also federal employees during summer training. We would limit payments to the higher of civilian or military pay. *Savings: $60 million.*

Families of Disabled Veterans

At least 23,000 AFDC families are the families of disabled veterans, current or retired military personnel. The total is probably between 50,000 and 100,000 such families. We propose that the Defense Department reimburse the full costs of AFDC to military families, including those of pensioned veterans and their widows. *Transfer: $150 million.*

Nuclear Weapons Production

The President wants to spend $833 million more on nuclear weapons production and related activities, an 18 percent increase over last year. We do not know much about what goes into making a Mark 12A. But the personnel who stuff the warheads would like to buy 165 more cars than they did last years, an 87 percent increase. We suggest they try to make do for another year with the cars they have. *Savings: $1.65 million.*

Military Unit Cost Overruns

We suggest the elimination of military unit cost overruns in the dozen weapons systems described in the overview. The cost overruns in these systems alone would total more than $50 billion if projected over the whole planned buy of weapons. Of course some weapons have already been delivered in previous fiscal years and others will not be delivered until later years. In any one year the effect upon delivered weapons will run $8 to $10 billion. *Savings: $8-10 billion.*

Military Morale, Welfare, and Recreation Fund

The Military Morale, Welfare, and Recreational Fund runs a variety of activities. They range from riding stables to golf courses. Worldwide there are more than 1,000 "open messes" running bars and liquor stores, on military facilities. This system costs more than $600 million a year in appropriated funds. Indirectly it costs $1 or $2 billion more in lost taxes and revenues because prices charged are less than free market prices. We propose that morale, welfare, and recreational activities be operated at civilian prices and by civilians wherever possible. The profits should be returned to the treasury as receipts. Direct appropriations should pay for those individual services and benefits that are appropriate to an employer or of special value to the military. However the subsidy should be on a sliding scale to reflect the ability to pay of military families. *Savings: $1.6 billion.*

Foreign Military Sales Trust Fund

By combining orders for arms from foreign governments with those placed by our own armed services, we can save money from longer arms production runs. But the federal government has a problem that will be familiar to every small businessperson: the cost of carrying receivables. There is a bit of a lag from the time we deliver the goods and send out the bill until we see the check. Our military supermarket has grown so popular that even that small loss amounts to about $200 million a year, year after year. Increasing our arms prices by an average of 2 percent will cover the loss. But it will also fund legal services for our nation's poor, indeed even allow a small increase in that program from the level to which it has been currently reduced. *Savings: $200 million.*

Other Budget Options

Elimination of the Defense Department servant program. *Savings: $5 million.*

Sending DOD nonpriority messages by mail rather than teletype. *Savings: $20 million.*

Having the Army sell rather than give, transport, and install free, industrial machines to its contractors. *Savings: $58 million.*

Elimination of veterinary services for the pets of military personnel. *Savings: $1.4 million.*

Operation of Secretary Weinberger's private dining hall at the Pentagon on a self-sufficiency basis. *Savings: $400,000.*

Operation of four additional Pentagon executive dining rooms on a self-sustaining basis. *Savings: $1.3 million.*

To assume that the cuts in the block grants to the states are fair and necessary given this amount of unnecessary expenditure in other areas raises a serious question about the budget planning process.

Received: March 10, 1982