Child Nutrition Programs[1/]

Agency: Department of Agriculture

Functional Code: 605

Budget Reform Criterion: 2,6

Funding

	($ in millions)					
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:[1/]						
Budget Authority	3737	4661	5169	5609	6049	6484
Outlays	3727	4324	4810	5225	5642	6053
REESTIMATES & ADJUSTMENTS:[2/]						
Budget Authority	- -	−155	−344	−450	−565	−689
Outlays	- -	−85	−545	−667	−801	−939
PROGRAM CHANGES:[3/]						
Budget Authority	−35	−1768	−1911	−2053	−2173	−2291
Outlays	- -	−1651	−1806	−1939	−2051	−2161
REAGAN BUDGET:						
Budget Authority	3702	2738	2914	3106	3311	3504
Outlays	3727	2588	2459	2619	2790	2953

1/ Includes funds transferred and available from the Section 32 permanent appropriation.

2/ Includes savings associated with nutrition consolidated grant for Puerto Rico.

3/ The Carter budget already included savings for this proposal. Total savings expected are as follows:

Budget Authority	−35	2,221	2,381	2,535	2,682	2,811
Outlays	- -	2,080	2,251	2,395	2,533	2,653

Program Description

The Child Nutrition appropriation finances a variety of programs: school lunches and breakfasts, child care meals, summer meals, snacks, nutrition education, equipment assistance, and State administrative expenses. The lunch, breakfast, and child care programs subsidize all meals served, but the subsidy amounts vary in three tiers by household income level. The summer program is fully subsidized for all recipients. In recent years, large supplemental requests — $100 to $300 million — have been commonplace to finance costs of subsidized meals claimed by States.

Proposed Change

At present, the Federal Government provides subsidies in three different categories (cash, commodities, and special cash assistance) to school districts that agree to provide free meals to the lowest-income students (those below 125% of the poverty line), and reduced-priced meals to those with slightly higher incomes (between 125% and 195% of the poverty line). The basic cash and commodity subsidies are distributed to schools based on the total number of children participating in the meal program, regardless of income level. The result is a subsidy, equal to about 50% of the purchase price of meals served to middle- and upper-income students— many of whom come from families with very high incomes. Given the need to focus Federal benefits on those truly in need, the Administration will propose legislation to focus subsidies on the lower-income groups.

The summer feeding program, which has been riddled with abuse and fraudulent claims will be proposed for termination. Other nonessential activities funded under this account will also be terminated, including funds to purchase new school food service equipment, nutrition education and training grants to States, subsidized snacks, and all subsidies to schools with high tuitions. The base and special subsidies for both free and reduced price meals will be annually indexed in future years from 1982 levels for price changes in the currently authorized indices. Finally, schools will begin to verify the income eligibility of students claiming full or partial meal subsidies.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Rationale

By focusing Federal meal subsidies on children from families in need, Federal costs will be reduced by over 35% next year, or by more than $9 billion by 1986. At the same time, continued full and partial Federal subsidies for lower income students will help to ensure that these students have access to adequate nutrition at school. Administratively, these changes will reduce the existing complexity of over 20 subsidy rates that vary by income level, type of meal, and type of institution claiming the subsidy. Elimination of activities collateral to funding nutrition subsidies for the needy moves away from inappropriate Federal involvement in State and local school administration.

Key Facts About the Program

- Full subsidies will continue for over 10 million needy participating children under the Administration's proposal; Federal subsidies will end for 14.5 million middle and upper income students whose familes' income exceed $15,630 per year.
- Grand jury indictments were handed down in March 1981 for fraud in New York City's summer feeding program, evidence of the continued abuse of that program.
- Federal funding has grown dramatically on a portion of school meal financing.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

CCC Interest Rates and Interest Waiver Changes

Agency: Department of Agriculture

Functional Code: 351

Budget Reform Criterion: 4

Funding

Outlays

($ in millions)

	1981	1982	1983	1984	1985	1986
CARTER BUDGET:	618	912	582	655	684	714
PROGRAM CHANGES:	-84	-212	-229	-254	-284	-316
REAGAN BUDGET:	534	700	353	401	400	398

*Budget Authority is excluded because it bears no relation to individual programs.

Program Description

A generally understood price support policy is that the interest rate charged on all Commodity Credit Corporation (CCC) loans will be equal to the Treasury interest rate charged *to* CCC. (Also known as CCC's cost of borrowing.) In practice, however, farmers have been charged interest rates below the CCC cost of borrowing in recent years.

For three-year grain reserve loans, the Congress mandated in a 1980 amendment that all interest be waived. Before that, USDA/CCC used discretionary authority to waive interest for the second and third years of the reserve and charged interest for the first year.

Proposed Change

Interest which is due on all CCC loans will be charged at the CCC cost of borrowing rate.

Legislation is being submitted to eliminate the mandate that interest be waived on the first year of 1981 crop grain reserve loans only.

- This action does not affect the 1980 crop.
- Interest will still be waived for the second and third years of the loan.
- Reserve loans would still receive higher-than-usual loan rates and extra payments for storage costs.
- The reserve program for the 1982 and beyond crops will be part of the Administration's comprehensive farm program.

Rationale

The CCC cost of borrowing is well below commercial interest rates. Charging farmers interest at CCC cost of borrowing will still provide farmers credit with terms much better than can be found in the private market, while reducing Federal costs.

Restoring the ability to charge first year interest on 1981 crop reserve loans will help reduce CCC operating costs without adversely affecting grain reserve participation.

- Grain reserve loans provide higher loan rates than regular loans.
- The Federal Government pays storage costs for reserve loans but not for regular loans.
- Interest will still be waived for the second and third years of the reserve.
- When interest was charged in the first year, the reserve still received tremendous participation.
- Now, even with all interest waived, virtually no feed grains remain in reserve. Generally, *participation is not a function of interest charged, but of commodity market conditions.*

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Key Facts About the Program

For the regular loan programs, CCC was lending funds to farmers at 11.5% interest at the same time it was paying 15% interest to the Treasury for these funds.

When Congress waived all reserve loan interest, many farmers used the reserve for short-term interest-free credit during a year when there was a high probability that the reserve would be called. This created the opportunity for CCC borrowers to place interest-free Federal loans into Money Market or other short-term investments. This was truly an abuse of the reserve system, warping the original purpose of a grain reserve.

The following table provides the outlay savings for each action:

	Net Interest Costs ($ in millions)					
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:	618	912	582	655	684	714
Program Changes:						
Interest on regular loans	-4	-45	-49	-54	-59	-66
Reserve loan interest waiver	-80	-167	-180	-200	-225	-250
Subtotal, changes	-84	-212	-229	-254	-284	-316
REAGAN BUDGET:	534	700	353	401	400	398

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

CCC Storage Facility Loans

Agency: Department of Agriculture	Functional Code: 351	Budget Reform Criterion: 4

Funding	Outlays ($ in millions)					
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:	210	150	150	150	150	150
PROGRAM CHANGES:	-25	-100	-110	-120	-130	-150
REAGAN BUDGET:	185	50	40	30	20	- -

***Budget Authority is excluded because it bears no relation to individual programs.**

Program Description

USDA (Commodity Credit Corporation) provides loans to farmers of up to $100,000 each to cover at least 75% of the cost of building or renovating storage and drying facilities, usually for grain, rice, or soybeans. These provisions, enacted in 1977, expire at the end of 1981, at which time a permanent mandate for grain (only) storage facilities will exist.

Proposed Change

1981 and 1982 outlay reductions will be achieved *administratively* —

- maximum loan coverage will be reduced from Carter policy of 85% to statutory minimum of 75%; and
- repayment terms will be reduced from Carter policy of 8 years to 5 years.

Outyear reductions above $100 million are contingent upon elimination of permanent statutory mandate. The Administration's farm bill will change the mandate to discretionary authority, allowing a phased termination over several years.

Rationale

Excess crop storage has existed for three years and is expected to continue —

- in 1979, a year of *abundant* supply, excess storage existed;
- in 1980, a year of low supply, excess storage doubled; and
- the recent drought and projected high grain demand indicate increased excess storage.

By proposing elimination of the permanent statutorily mandated program, the Administration will be able to conduct a discretionary program, with terms equivalent to commercial credit, at reduced costs and with a phased elimination over five years, to be completely eliminated in FY 1986. The Administration will continue a smaller-scaled program in order to alleviate specific localized problems in those few States where adequate storage capacity may still be lacking.

Key Facts About the Program

USDA analysis of storage availability as of October 1, 1980 showed a national surplus capacity of 3.8 billion bushels. Only 2 States showed minor deficits which in fact may not exist at all since the assumption was made that all late harvested (after October 1) crops (corn, soybeans, and sorghum) were in storage as of October 1, 1980.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The following table presents an overview of the situation:

	Storage Availability (in billions of bushels)	
	1979 (Good Production Year)	1980 (Bad Production Year)
Supply of Stocks for Storage	15.6	14.7
Storage Capacity:		
Off-farm	7.2	7.3
On-farm	10.6	11.2
Total	17.8	18.5
Excess Storage Capacity	2.2	3.8
States Still Experiencing Major Deficits in Capacity:		
Indiana	-.067	+.005
Kentucky	-.068	+.044
Michigan	+.003	-.038
Montana	-.018	+.143
Ohio	-.105	-.109

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Conservation Cost-Sharing

Agency: Department of Agriculture

Functional Code: 302

Budget Reform Criterion: 6

Funding

	($ in millions)					
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	212	215	234	254	272	290
Outlays	228	200	251	244	260	280
REESTIMATES & ADJUSTMENTS:*						
Budget Authority	- -	- -	-19	-39	-57	-74
Outlays	- -	- -	-10	-25	-42	-58
PROGRAM CHANGES						
Budget Authority	- -	-55	-55	-55	-55	-55
Outlays	- -	-15	-31	-38	-46	- 54
REAGAN BUDGET:						
Budget Authority	212	160	160	160	160	160
Outlays	228	185	210	181	172	167

*Effect of eliminating allowance for inflation from discretionary programs.

Program Description

Three cost-sharing programs administered by the Agricultural Stabilization and Conservation Service (ASCS) are included.

- *The Agricultural Conservation Program (ACP)* provides cost-shares to farmers and ranchers to establish conservation practices on agricultural land for erosion control, water conservation, point and nonpoint pollution control, rural water quality improvements, forestry and wildlife enchancement and energy conservation.
- *The Water Bank Program (WBP)* provides cost-shares to landowners for maintaining, improving and increasing water-fowl habitat in migratory water-fowl nesting and breeding areas of the United States and land for leasing rent to protect wetlands.
- *The Forestry Incentives Program (FIP)* provides cost-share and technical assistance for tree planting and timber stand improvement (TSI) to increase supplies of timber products.

Proposed Change

- ACP (-$40 million). The reduction leaves $150 million for annual and long-term agreements for cost-sharing for conservation and pollution abatement measures on 8.9 million acres.
- WBP (-$10 million). The reduction eliminates funding for the program.
- FIP (-$5 million). The remaining $10 million would support planting 120,000 acres and TSI on 85,000 acres.

Rationale

The imposition of fiscal restraint on other programs of national interest is a necessary part of the Administration's overall effort to reduce Federal expenditures. Many programs that are in the national interest but which cannot be accorded an urgent priority must be reduced. Cost-sharing for soil and water conservation and forestry development programs on private lands are among these kinds of programs.

Key Facts About the Program

In the case of ACP there is evidence that the targeting of the public cost-sharing investment to intensively eroding areas could conserve more soil at less cost. About 84% of all excess sheet and rill erosion on agricultural land is concentrated on that 4% of the acreage that is eroding at rates of over 14 tons per acre annually. The ACP evaluation found that in the 171 sample counties for the nine erosion control practices studied, land suffering sheet and rill erosion at rates in excess of 14 tons per acre annually received only 21% of the sample practices. More than 52% of the sample practices were

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

installed on lands eroding at rates of less than 5 tons per acre annually. Practice installation costs per ton of erosion reduction decline rapidly as the pre-assistance rate of erosion increases.

In the case of WBP, the public's investment in leasing of wetlands for water-fowl habitat protection and development provides only temporary protection at increasing costs. Technical assistance to private landowners interested in investing in wildlife development is available. Landowners were assisted on 2.6 million acres in FY 1980. In addition the Migratory Bird Conservation Fund in the Department of the Interior (DOI) will spend $16 million in FY 1982 for acquisition of wetlands for bird and waterfowl production areas. This will add to the almost 30 million acres currently included in the National Waterfowl Refuge System. An additional 1.6 million acres of wetlands are protected under the wetlands acquisition or easement program administered by the Fish and Wildlife Service of the DOI and about 5.1 million acres of wetlands provide local benefits under State control.

In the case of FIP, it has not been demonstrated that the market is unable to allocate resources for timber production efficiently. Indeed, it is questionable that work accomplished through this program is additional to that which would be accomplished in the absence of Federal assistance. What is clear is that some costs of private investment are shifted to the public.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Farmers Home Administration
Business and Industry Loan Program

Agency: Department of Agriculture

Functional Code: 351

Budget Reform Criterion: 4

Funding

	Loan Guarantee Commitments ($ in millions)					
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:	741	500	500	500	500	500
PROGRAM CHANGES:	- -	-500	-500	-500	-500	-500
REAGAN BUDGET:	741	0	0	0	0	0

Program Description

The Business and Industry (B&I) loan program provides guaranteed loans to individuals, public and private organizations and Indian tribes to finance projects to improve the economy of rural areas. The Carter budget proposed, for 1982 and beyond, a program level of $500 million, $241 million lower than the 1981 level. Legislation restricts this program to communities of 50,000 or less with primary emphasis on serving communities of 25,000 or less. (From 1974–1980, 53.8 percent of the B&I projects were located in communities of 5,000–10,000 people).

As currently administered, FmHA may guarantee up to 90 percent of the principal on privately originated loans. There is no statutory limit on the size of individual loans (the average loan size was $820,000 in 1979). The interest rate on the loan is negotiated between the borrower and the lender, with the lender paying a 1 percent fee which may be passed on to the borrower. Repayment terms vary as follows: 1) 30 years for land, buildings and permanent fixtures, 2) 15 years for machinery and equipment, and 3) 7 years for working capital.

Proposed Change

The Administration proposes to terminate guaranteed B&I lending in 1982.

Rationale

The proposal to terminate the B&I loan program is consistent with the premise that it is more appropriate for private capital to finance these types of rural development projects rather than affect the resource allocation and interest charges through Federal guarantees.

Since B&I loans are made to many credit-worthy applicants, it has not been demonstrated that private lenders would not finance such projects without Federal guarantees. Accourdingly, there is no evidence that rural development will be significantly affected by the elimination of this program. (Local banks that sold the guarantees in the secondary market were the program's primary beneficiaries.) Termination of this program is also consistent with the Administration's plan to return FmHA to its original role of lender of last resort in the areas of farm credit, housing and certain community projects.

Key Facts About the Program

Defenders of the B&I program argue that since the loans are guaranteed, the Government does not incur any expenses unless a loan defaults. Defenders also point to the low default rate (traditionally, less than 3 percent of the funds lent in any one year have defaulted). Further, only $41M in actual losses have been paid out through December 31, 1980. However, lately, FmHA has purchased a number of loans from banks which are over 60 days delinquent in payment and are treated as defaults by banks. In such cases, the bank believes that the loan cannot be brought current, and the holder is directed to FmHA. Consequently, FmHA executes the guarantee and buys back the loan, for servicing as a direct FmHA loan.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The chart below illustrates the trend in secondary market purchases of B&I loans by FmHA.

($ in millions)

1977	1978	1979	1980	1981 (est.)	1982 (est.)
4.7	2.2	34.9	70.5	100.0	102.0

A significant amount of staff time is devoted to making and servicing these highly complex loan projects. Termination of the program will enable FmHA to concentrate more of its staff resources on servicing its existing portfolio of loans, and in serving in its traditional role of lender of last resort for agricultural credit, low income housing, and selected community facilities loans.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Farmers Home Administration
Direct Lending

Agency: Department of Agriculture	Functional Code: 351,371,453	Budget Reform Criterion: 4

Funding

	($ in millions)					
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
*Budget Authority**	1,056	3,644	3,049	3,454	3,764	3,870
Outlays	-1,205	2,557	2,952	3,232	3,490	3,652
Direct Loan Obligations:	12,990	10,237	10,237	10,237	10,237	10,237
PROGRAM CHANGES						
*Budget Authority**	- -	- -	-30	-105	-179	-255
Outlays	-30	-110	-179	-255	-331	-407
Direct Loan Obligations:	-565	-2,354	-2,354	-2,354	-2,354	-2,354
REAGAN BUDGET:						
*Budget Authority**	1,056	3,644	3,019	3,349	3,585	3,615
Outlays	-1,235	2,447	2,773	2,977	3,159	3,245
Direct Loan Obligations:	12,425	7,883	7,883	7,883	7,883	7,883

* Budget authority funds the operations of three revolving funds which finance these programs and has no direct relationship to direct loan obligation levels.

Program Description

The FmHA administers a broad range of rural credit programs for agriculture, housing, and community facilities. In the January Budget, direct loan commitments for all of these purposes totaled $12,990 million in 1981 and $10,237 million in 1982. For 1982, agricultural credit accounts for approximately $5 billion, housing $4.4 billion, and community facilities $835 million in 1982.

Proposed Change

The Administration proposes to reduce 1981 direct loan obligations by $565 million. The chart below describes the programs affected by this reduction:

	$M 1981 Budget	Number of Loans	$M 1981 Proposed	Number of Loans
Farm ownership	870	10,563	790	9,592
Moderate income homeownership	825	22,400	509	13,820
Water and sewer	750	1,777	590	1,398
Other agricultural credit loans	110	2,276	101	2,053

The proposed change will include the following direct loan programs in FY 1982:

	Loan Level ($M)	Number of Loans
Farm ownership	700	7,650
Farm operating	1,325	39,200
Emergency disaster	1,600	30,890
Soil and Water Conservation	44	1,690

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

	Loan Level ($M)	Number of Loans
Resource Conservation and Development	--	--
Low income housing	2,300	67,000
Moderate income housing	500	19,500
Rural rental housing	870	1,210
Very low income housing repair	24	6,960
Water and waste	300	646
Community facilities	130	306

OTHER CHANGES:

Legislation is being proposed to eliminate interest subsidies for the following programs: farm ownership, emergency disaster and moderate income housing loans. Legislation is also being proposed to increase the interest rate for water, sewer and community facility loans to the municipal borrowing rate. Finally, legislation is being proposed to eliminate emergency (disaster) loans to applicants who *can* obtain credit elsewhere.

Rationale

FmHA was created to be a lender of last resort. Individual farmers and rural residents were the primary clientele. Interest rates originally approximated the prevailing market, even though some were subject to a statutory ceiling.

Recently, FmHA's role has changed. Through a variety of programs including the economic emergency, disaster loan, and the business and industry loan programs, the agency has offered loans without applying the credit elsewhere test. Further, substantial increases in prevailing market rates of interest have widened the gap between the rates charged by private lenders, the rates charged by Treasury and those offered by FmHA. This proposal is part of a government-wide effort to reduce Federal involvement in credit markets and channel those able to obtain credit toward private lenders.

Key Facts About the Program

The major programs affected by the budget revisions are discussed below:

AGRICULTURAL CREDIT:

Farmownership loans

- Subsidized interest rates, low down payments (FmHA currently requires no down payment), and long repayment periods (FmHA currently offers 40 years) provide an incentive to pay higher prices for farm land. Eliminating interest subsidies and reducing the size of the Farm Ownership program should reduce somewhat inflationary pressures on land prices.
- Recent changes in the statutory authorities of the Farm Credit Administration (FCA) will increase its role in serving young and beginning farmers. (FCA is a Federally-chartered agency that obtains all of its financing from the private market.)
- FmHA has not been a major source of farm real estate debt. As of January 1, 1981, FmHA held only 9.4 percent or $9 billion of all farm real estate debt outstanding. The major suppliers of such credit are the Federal Land Banks (a part of the Farm Credit System) which hold 38 percent or $36.6 billion of this type of debt.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Farm Operating Loans

- A level of $1,325 million will be proposed for FY 1982 which compares to only $850 million available for FY 1981. The increased funding is intended in part to provide credit to farmers who may have received financing under the Economic Emergency Loan program which is expiring at the end of 1981.
- Action will be taken administratively to increase the interest rate on operating loans to limited resource farmers from 7 percent to the Cost of Treasury borrowing.
- FmHA holds 15.4% or $13 billion of farm nonreal estate debt outstanding as of January 1, 1981. Commercial banks and the Farm Credit System held the major share of nonreal estate debt (37 percent and 25 percent respectively).

Emergency Disaster Loans

- Legislation will be proposed to eliminate from eligibility for Emergency (Disaster) loans those borrowers who *can* obtain credit elsewhere. Traditionally, this FmHA program has been limited to those who *cannot* obtain credit elsewhere. However, eligibility was expanded through legislation enacted last year. Returning to a program open only to those who *cannot* obtain credit elsewhere will provide for a reduction in the 1982 loan level from $2 Billion to $1.6 Billion. Limiting eligibility to only borrowers who *cannot* obtain credit elsewhere returns the Farmers Home Administration to its original role as a lender of last resort.
- Legislation will also be proposed to increase the interest rate on actual loss loans to noncredit worthy borrowers from 5 percent to the Cost of Treasury borrowing.
- Subsidized disaster loans have led farmers to borrow more heavily than might otherwise be the case.
- These legislative proposals would be implemented together with administrative procedures to reduce obligations under the Emergency (Disaster) program. For example, applicants for loss loans would be required to purchase crop insurance to cover that portion of the yield used as collateral on the loss loan (this action is expected to reduce substantially the demand for emergency loans in the future).

RURAL HOUSING:

Low Income Homeownership Loans

- In 1982, the amount of homeownership loans to low income families (incomes below $11,200) will be maintained at the 1981 level.

Moderate Income Homeownership Loans

- In 1982, the amount of homeownership loans for moderate income families (incomes from $11,201–$15,600) will be reduced from $802 million to $500 million. This proposed level is just slightly below the loan level actually used in 1980 ($585 million).
- The proposed reduction will not significantly change the way in which the homeownership program has been operated. Rather, it reflects the repeal of a recently enacted statutory change that would have reduced the interest rate on loans to moderate income families from about 13 percent (currently) to as low as 3 percent. Implementation of the legislation would have resulted in a substantial increase in demand for loans.

RURAL DEVELOPMENT:

- In 1982, the Water and Waste Disposal Loan program will be reduced from $575 million to $300 million. This loan level will result in a loan-to-grant ratio of 3:1 which is more appropriate than the 6:1 ratio contained in the Carter budget. Generally, the wealthier communities that would qualify for loans without grants would be affected by the proposed reduction in loan level.
- The Administration will support legislation which has already been submitted to the Congress to increase the interest rate on community facility and water and waste disposal loans. The proposal would repeal the 5 percent interest rate ceiling and replace it with a rate based on the municipal bond market. Funding of the loan and grant programs for water and waste disposal are contingent upon enactment of on the proposed legislation.

Digitized for FRASER 344-211 O - 81 - 2
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Farmers Home Administration
Grant and Home Ownership Assistance

Agency: Department of Agriculture

Functional Code: 371

Budget Reform Criterion: 6

Funding

	($ in millions)					
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	11	108	109	109	110	110
Outlays	12	13	14	15	18	20
PROGRAM CHANGES						
Budget Authority	-5	-108	-109	-109	-110	-110
Outlays	-4	-11	-14	-15	-18	-20
REAGAN BUDGET:						
Budget Authority	6	--	--	--	--	--
Outlays	8	2	--	--	--	--

Program Description

Includes home ownership assistance grants ($100 Million), rural development planning grants ($6 Million), and rural housing supervisory assistance grants ($2 Million).

Proposed Change

Funding for the programs is to be terminated effective April 1, 1981.

Rationale

Congress did not appropriate funds for the Home Ownership Assistance Program (HOAP) in either 1980 and 1981. The $100 Million Carter budget request for 1982 only would fund an experimental program involving less than 900 units. The annual cost of subsidizing units under HOAP would be slightly less than under the rural rental assistance program. However, the major disadvantage to HOAP, is that assistance would be provided to individual owner occupants while rental assistance payments finance a unit which may be occupied by several different tenants over the life of the contract. Further, HOAP would be limited, by law, to areas where it is not feasible to construct rental housing for low income families.

Elimination of funding for the other relatively small grant programs (e.g., rural planning, and supervisory housing assistance) would have little, if any, effect on rural communities in general. Few communities receive any of the limited funding currently available.

Key Facts About the Program

Summary of FmHA Grant Programs

	1981		*1982*	
	January Budget	*Reagan Revisions*	*January Budget*	*Reagan Revisions*
Home Ownership Assistance Grants (HOAP)	--	--	100	0
Rural Development Planning Grants	5	3	6	0
Rural Housing Supervisory Assistance Grants	2	1	2	0
Other	4	2	--	--
TOTAL	11	6	108	0

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

- HOAP provides a supplemental grant to very low income families who could not afford the mortgage payments of a 1 percent FmHA home ownership loan. Congress authorized this program three years ago but did not appropriate funds.
- Although the Administration is not proposing HOAP, very low income rural families may be assisted through the following four existing FmHA programs:

	($ in millions)	
	1981	*1982*
Rental Housing	918	870
Rental Assistance	403	398
Home Ownership Repair Loans	24	24
Home Ownership Repair Grants	25	25

- The Rural Supervisory Assistance Grant Program finances organizations that counsel low income rural households on Federal eligibility requirements filing applications for assistance, etc. Since the FmHA loan level is proposed to be reduced significantly, agency staff will have more time to counsel applicants and borrowers.
- The rural planning grant program finances planning and technical assistance projects which are not considered priority activities.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Farmers Home Administration
Water and Sewer Loan Levels and Interest Rates

Agency: Department of Agriculture

Functional Code: 352

Budget Reform Criterion: 6,4

Funding

	($ in millions)					
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Direct loan obligations	750	575	575	575	575	575
Outlays	9	14	16	17	20	25
PROGRAM CHANGES						
Direct loan obligations	-160	-275	-275	-275	-275	-275
Outlays	-2	-4	-5	-6	-7	-9
REAGAN BUDGET:						
Direct loan obligations	590	300	300	300	300	300
Outlays	7	10	11	11	13	16

*Outlays represent the cost of interest subsidies calculated as the difference between Treasury borrowing costs and the rate charged to borrowers.

Program Description

The water and sewer loan program finances projects in communities of 10,000 people or less. The Carter budget proposed a loan level of $575 million which would support approximately 1,238 loans.

Proposed Change

The Reagan budget assumes the following two changes in the water and sewer loan program:

- a reduced 1982 program level of $300 million which would support 646 loans. This loan level, retained in the outyears, results in a 3 to 1 ratio of loans to grants;
- support for a proposal in the Carter budget to raise the 5 percent interest rate to the average muncipal bond rate charged on similar types of projects.

Rationale

The proposed program level reduction preserves the 3 to 1 ratio of loans to grants and directs assistance to those communities that are too poor to afford water or waste systems without a grant. This focus on the poorest communities is consistent with the Agency's original role as lender of last resort.

The increase in the interest rate on water and waste loans will reduce Federal outlays and the demand for these loans from those communities that can participate in the municipal bond market. This proposal will not prevent those communities unable to obtain credit from constructing necessary water and waste facilities; it will, however, pass on to such communities the cost of these facilities. The Administration believes that this proposal will result in sounder public investment decisions and more equitable and undistorted resource allocation.

Key Facts About the Program

The 5 percent rate for water and sewer loans was established in 1968 when the cost of borrowing was only 6.25 percent. There is no analytical basis for retaining this subsidized rate when FmHA currently is paying 13.82 percent to borrow from the Federal Financing Bank.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Food Stamps

Agency: Department of Agriculture

Functional Code: 605

Budget Reform Criterion: 1

Funding

	($ in millions)					
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	11084	12882	14289	15278	16008	16706
Outlays	10950	12722	14181	15164	15889	16582
REESTIMATES & ADJUSTMENTS:[1/]						
Budget Authority	– –	–1409	–2280	–2880	–3261	–3806
Outlays	– –	–1394	–2266	–2861	–3239	–3781
PROGRAM CHANGES:[2/]						
Budget Authority	–150	–1717	–1927	–2369	–2533	–2660
Outlays	–149	–1700	–1917	–2357	–2520	–2647
REAGAN BUDGET:						
Budget Authority	10934	9756	10082	10029	10214	10240
Outlays	10801	9628	9998	9946	10130	10154

1/ Includes savings due to consolidation of food stamps with other nutrition programs for Puerto Rico.

2/ The Carter Budget already included savings for this proposal. Total savings expected are as follows:

	1981	1982	1983	1984	1985	1986
Budget Authority	–150	–2,204	–2,646	–2,943	–2,938	–2,992
Outlays	–149	–2,182	–2,632	–2,928	–2,923	–2,977

Program Description

Food stamps subsidize the food purchases of low income households. Each household meeting eligibility requirements — a net income test, a disposable assets test, and a work requirement for able bodied persons — receives stamps redeemable for food. Monthly stamp allotments may be household size and net income level. Allotments are annually indexed to changes in USDA's Thrifty Food Plan.

Proposed Change

In accordance with the Administration's efforts to target assistance to the most needy families, and to restrain the uncontrolled growth of entitlement spending, major changes will be proposed in the food stamp program.

For a family of four, eligibility will be limited to those whose gross income is less than $11,000 per year — about $900 per month. Under current law, similar families with income in excess of $14,000 annually are eligible for food stamps. Overlapping school meal and food stamp subsidies will be eliminated. Benefit calculations will be based on actual recent earnings or payments rather than projected earnings or payments. A recipient's initial allotment will be prorated to ensure that the benefits provided are more equivalent to the number of days in the month for which assistance is needed. Liberalized allotment levels and income deductions scheduled to take effect in the next fiscal year will be repealed. Tightened administration and program monitoring will yield additional savings through reduced overhead costs, and through the elimination of payment errors and food stamp fraud.

Rationale

These changes will help to refocus the food stamp program on its original purpose — to ensure adequate nutrition for America's needy families. The combined effect of food stamp's current prospective income test and high deductions from income has been to divert the food stamp program away from this original purpose toward a generalized income transfer program, regardless of nutritional need. By restructuring food stamps to complement other nutrition programs and targeting funds on those whose low income prevent them from maintaining an adequate diet, significant savings can be achieved while ensuring that needy families have the resources to meet their nutritional needs.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

These changes are also designed to eliminate anomalies found in the present program, where families with high annual income are nevertheless eligible for food stamps during short, temporary periods of unemployment. The present program also permits those with relatively high incomes to take higher deductions for shelter and child care expenses than lower-income families. The Administration's program would remove 400,000 such households from the rolls. At the same time, a family of four with income below $10,985 would receive the full nutritional benefit — only modified to account for duplicated nutrition subsidies.

Key Facts About the Program

- Food stamp costs have doubled in the past three years and one out of ten Americans (22 million people) now participates in the program. The value of food stamp benefits grew from $5.2 billion in 1979 to more than $10.3 billion in 1981 and over 6 million people were added to food stamp rolls over that period.
- In 1977, Congress established annual "caps" on Food Stamp appropriations, based on the best available economic and program projections. For three of the four years that the "cap" has been authorized, program growth has forced Congress to increase this statutory appropriations "cap." Increases enacted for FY 1980 and 1981 exceeded the "caps" established for those years by more than 55% for each year. In addition, a second increase of $1.2 billion above the "cap" for FY 1981 is currently pending.
- Contrary to some popular suggestions, the growth in Food Stamp paraticipation is not largely related to rising unemployment. Between February 1978 and February 1979, for example, Food Stamp participation increased by one million while the number of unemployed civilian workers remained constant. In the succeeding 12 months, Food Stamp participation increased by over three million while the number of unemployed increased by only 500,000. In 1975, at the peak of the recession, there were 7.8 million unemployed and 17.1 million Food Stamp participants. At the 1980 peak of 7.5 million unemployed, the program grew to in excess of 22 million participants.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Forest Service Reductions

Agency: Department of Agriculture

Functional Code: 302

Budget Reform Criterion: 4,6,8

Funding

	($ in millions)					
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	2,166	2,310	2,443	2,543	2,655	2,766
Outlays	2,157	2,429	2,496	2,597	2,722	2,824
REESTIMATES & ADJUSTMENTS:						
Budget Authority	- -	- -	-95	-165	-246	-327
Outlays	- -	-100	-150	-220	-313	-386
PROGRAM CHANGES:						
Budget Authority	-11	-74	-74	-74	-74	-74
Outlays	-11	-64	-74	-74	-74	-74
REAGAN BUDGET:						
Budget Authority	2,155	2,236	2,274	2,304	2,335	2,365
Outlays	2,146	2,265	2,272	2,303	2,335	2,364

Program Description

Forest Services activities include:

- a comprehensive *research* program in the management, protection, and utilization of products from forest lands.
- *cooperative forestry* programs which provide modest amounts of technical and financial assistance to States and private owners of forest land.
- management and protection of the 190 million acres *National Forest System* for multi-purposes including timber, recreation, water, fish and wildlife, forage, wilderness, and mineral and energy resource extraction.

Proposed Change

The only reduction proposed in FY 1981 is $11 million in savings from the employment freeze and other administrative reductions.

A $74 million reduction is proposed for FY 1982 including $14 million in administrative savings. The 1982 budget will still exceed funds available in FY 1981 by $81 million. Reductions by major activity are:

- Research (-$9 million). This would result in a $134 million progam including $1 million in administrative savings.
- Cooperative Forestry (-$3 million). This deletes a $3 million grant for investment on non-Federal forest lands in northern Minnesota.
- National Forest System (-$62 million). This represents about a 3 percent reduction of the approximately $1.8 Billion January Budget. About $13 million of this reduction is associated with the employment freeze and other administrative savings.

Rationale

The proposed changes will reduce overhead and personnel costs of the Federal Government, reduce economic subsidies, and impose fiscal restraint on programs of national interest:

- Research. The lowest priority projects would be deleted or deferred.
- Cooperative Forestry. Deletion of grant to non-Federal public and private land owners in northern Minnesota reduces economic subsidies.
- National Forest System. The remaining $49 million represents relatively minor reductions in road and facility construction and maintenance and for nontimber resource management. This is expected to improve the efficiency of the transportation system and may delete or defer the lowest priority projects.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Key Facts About the Program

Specific program reductions are presented below. In most cases the FY 1982 Reagan Budget will equal or exceed the FY 1981 budget.

($ in millions – BA)

	1981 Base	1982 January Budget	1982 Reduction
Research	129	143	–8
Cooperative Forestry	74	73	–3
National Forest System			
Cooperative law enforcement	5	7	–1
Forest road maintenance	78	86	–5
Forest trail maintenance	15	15	–2
Recreation use	118	125	–7
Wildlife and fish management	42	48	–3
Range management	36	40	–2
Soil and water management	39	42	–1
Construction of facilities	23	26	–3
Road construction	215	221	–15
Purchaser road construction	210	255	–10
	984	1,081	–60

The research program will still be increased by $5 million over FY 1981 after the reduction.

Although $3 million *for cooperative forestry* programs has been deleted, substantial investments have been made in FY 1980 and 1981 ($19 million) to offset economic impacts of the Boundary Waters Canoe Area Act of 1978. An additional $8 million will still be available in FY 1982 for investment on National forests and to provide financial and technical assistance to resort owners and local communities.

A number of *National Forest System* activities are reduced but in almost every case the revised budget is equal to or greater than FY 1981 appropriation action. The revised budget provides for balanced multiple–use management in a time of severe fiscal pressure. It does require that costs be reduced and that some lower priority activities be deleted or deferred.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Nutrition Assistance for Puerto Rico

Agency: Department of Agriculture

Functional Code: 605

Budget Reform Criterion: 7

Funding

	($ in millions)					
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:[1/]						
Budget Authority	1,095	1,229	1,303	1,359	1,402	1,427
Outlays	1,404	1,151	1,281	1,336	1,377	1,402
REESTIMATES & ADJUSTMENTS:						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
PROGRAM CHANGES:						
Budget Authority	--	-308	-381	-437	-480	-505
Outlays	--	-280	-359	-414	-455	-480
REAGAN BUDGET:						
Budget Authority	1,095	922	922	922	922	922
Outlays	1,040	871	922	922	922	922

1/ Represents estimate of Puerto Rico's share of USDA categorical food assistance programs.

Program Description

Puerto Rico receives nutrition assistance under several USDA categorical programs including food stamps, summer feeding, school lunch, school breakfast, equipment assistance, commodity assistance, state administrative expenses, nutrition education & training, special milk, and the Women, Infants and Children (WIC) Supplemental feeding program.

Proposed Change

A consolidation of funds amounting to $0.9 billion is proposed in the form of a nutrition consolidated grant. The proposed amount is about 75% of the expected 1982 level of USDA nutrition assistance for Puerto Rico prior to proposed reductions in the catgorical feeding program. This consolidated grant would eliminate the detailed nutrition prescriptions, financial reporting and accounting currently required by Federal feeding programs, and would give the Commonwealth government the flexibility to target nutrition assistance in accordance with its priorities.

Rationale

- Puerto Rico has rapidly become heavily reliant on Federal payments as a source of income. From about $1.3 billion in 1974, Federal outlays to Puerto Rico leaped to $2.8 billion in 1976. In FY 78, Federal payments were at a rate of $3.4 billion, more than one-third of Puerto Rico's $8.9 billion gross product — and more than $1,000 for each of the 3.2 million island residents.
- The Food Stamp program has become a disincentive for self-sufficiency and work. 58% or about 1.86 million of the island's 3.2 million residents receive food stamps.
- Federal transfer payments increased from 7% of Puerto Rico's personal income in 1970 to 20% in 1977. By 1978, one of every eight Federal "food-stamp" dollars went to Puerto Rico.

With a nutrition consolidated grant:

- Puerto Rico could focus on areas of greatest need. The availability of Federal funds or services that are restricted in use distorts local priorities and induces dependency on continued Federal payments. Under the Administration's proposal, nutrition funds will be available with few conditions to treat problems and priorities identified by the commonwealth. Duplication of nutritional aid could be eliminated.
- Nutritional assistance could be made more responsive to the socio-economic characteristics of Puerto Rico and supportive of the Commonwealth's culture and economy. More discretion over use of funds could enable the Puerto Rican economy to grow faster. By involving citizens and private sector groups in the planning and execution of food assistance, the Commonwealth could become more self-reliant and stimulate local agricultrual production.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Key Facts About the Program

- With less than 1.5% of the U.S. population, Puerto Rico absorbs more than 10% of the food stamp budget.
- Dependence on transfer payments and other Federal assistance has impeded Puerto Rico's economic growth. Private sector growth has been blunted by excessive expansion of public sector employment and benefits.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

REA (Rural) Community Antenna Television (CATV) Loans Elimination

Agency: Department of Agriculture

Functional Code: 452

Budget Reform Criterion: 4

Funding

	($ in millions)					
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
*Budget Authority**	32	2	3	4	4	3
Outlays	19	12	12	9	2	1
Loan guarantees	3	- -	- -	- -	- -	- -
Direct loans	(31)	(34)	(34)	(34)	(34)	(34)
PROGRAM CHANGES						
*Budget Authority**	-16	- -	- -	- -	- -	- -
Outlays	-7	-10	- -	- -	- -	- -
Loan guarantees	- -	- -	- -	- -	- -	- -
Direct loans	(-16)	(-34)	(-34)	(-34)	(-34)	(-34)
REAGAN BUDGET:						
*Budget Authority**	16	1	1	1	1	1
Outlays	12	2	7	6	1	1
Loan guarantees	3	- -	- -	- -	- -	- -
Direct loans	15	- -	- -	- -	- -	- -

*Includes Authority to Borrow.

Program Description

On February 14, 1979, President Carter announced a series of White House initiatives to "overcome isolation in rural areas through modern communications technology." The initiatives included a provision to finance facilities for television as well as other telecommunications services for rural residents.

In 1981, insured loans bearing an intest rate of 5 percent are available to nonprofit cooperatives, and insured loans at market rates and loan guarantees are available for profit-making CATV ventures. All of these loans have a maturity of 35 years.

During Fiscal Year 1980, the first full year of the program, REA committed $34 million, its total lending authority for cable television service. Insured loans of $10 million were made to four rural cooperative systems in four States to serve a total of 11,500 rural families. Also, 18 loan guarantee commitments totaling $24 million were approved for cable service for a total of 55,000 customers in 11 States.

Proposed Change

Terminate program effective April 1, 1981.

Rationale

The proposal to terminate this program has resulted from the application of sound criteria to economic subsidy programs.

The President's Budget Reform Plan proposes to significantly reduce Federal activities that are neither justified by cost-effective use of tax resources nor by the President's commitment to market-directed policy.

Key Facts About the Program

We do not believe that Federal assistance is necessary for the provision of this service. Available data indicates that some 4300 systems (serving 11,000 communities and some 17.5 million subscribers) have been installed with less than 1% receiving Federal funds.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

REA Direct Lending Reductions (Including Elimination of FFB Direct Lending)

Agency: Department of Agriculture

Functional Code: 271

Budget Reform Criterion: 4

Funding

	($ in millions)					
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	6,245	6,245	6,745	7,280	7,870	8,500
Outlays	4,774	5,752	7,387	7,571	7,520	7,800
PROGRAM CHANGES:						
Budget Authority	-187	-5,545	-6,045	-6,580	-7,170	-7,800
Outlays	-38	-1,152	-2,360	-3,670	-5,091	-6,630
REAGAN BUDGET:						
Budget Authority	6,058	700	700	700	700	700
Outlays	4,736	4,600	5,027	3,901	2,429	1,170

Program Description

The Rural Electrification Administration (REA) of USDA makes direct and guaranteed loans for construction and operation of electric and telephone utilities in rural areas. By statute, direct loans are made by REA at very low interest rates — 2% or 5% — depending upon the project and the financial condition of the borrower.

Loan guarantees are made to attract private capital to rural electric and telephone projects, particulary in those cases where utilities do not have the equity structure or cash flow necessary to attract privately-originated loans without Federal assistance. Since the Federal Financing Bank was established, the REA has relied almost entirely upon it as the originator of these guaranteed loans.

The Carter budget provided a minimum of $1,100 million and a maximum of $1,325 million in direct loans for this program ($250 to $1,100 million for electric and $250 to $325 milllion for telephone respectively). Also available in the Carter budget for loan guarantees in this program is a minimum of $5,145 million and a maximum of $6,655 million.

Proposed Change

The following changes are proposed:

- Discontinue FFB origination of REA-guaranteed loans; rely on private originations effective October 1, 1981.
- Eliminate 2% loans, substituting an equivalent amount ($150 million) of 5% loans. (Legislation is being submitted to authorize this change, effective upon enactment.)
- Eliminate direct 5% loans for generation and transmission facilities; substitute privately originated loans with an REA guarantee. (A $62 million reduction in 1981 and a $100 million reduction in 1982.)
- Reduce remaining direct 5% lending of $1 billion by $125 million in 1981 and by $300 million in 1982.
- Substitute specific loan level limitations for existing limitation ranges.

Taking these actions will result in a dramatic reduction in direct Federal lending — $5.5 billion in 1982, and over $33 billion between 1982 and 1986. In addition, Federal interest subsidy costs would be reduced by about $29 million in 1982 and by about $270 million over 1982-86.

Rationale

This proposal is an integral component of the Administration's overall effort to apply sound criteria to economic programs.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Key Facts About the Program

The availability of these subsidies reduces the necessity for recipients to improve their financial positions in order to attract private capital.

Within some individual states, rural electric systems may charge more than other utilities which have access to public power projects and therefore provide electricity at relatively low cost. However, nationally customers of REA-financed electric utilities receive service at rates on the average which are less than average rates charged by non-REA-financed utiliites. A 1977 study of the REA electric program by USDA and OMB found that REA-financed electric utilities charged rates on the average which were 8 to 12% less than average rates nationally charged by non-REA-financed electric utilities. The most recent available data (Jan. 1, 1980) shows that non-REA-financed electric utilities charged on the average 9.9% more than REA-financed utilities for service provided to customers in the 2,500 KWH class per month.

When the REA electric program was established in 1935, only 11% of the Nation's farms had electricity. Now more than 99% of the farms have electric service, and many of the are served by electric co-ops.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

REA Rural Telephone Bank (Capital Stock Purchase Elimination)

Agency: Department of Agriculture

Functional Code: 452

Budget Reform Criterion: 4

Funding

	($ in millions)					
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	22	22	22	22	22	– –
Authority to Borrow	130	149	96	130	126	136
Outlays	171	165	180	194	144	152
PROGRAM CHANGES:						
Budget Authority	– –	–22	–22	–22	–22	– –
Authority to Borrow	– –	– –	– –	– –	– –	– –
Outlays	– –	– –	– –	– –	– –	– –
REAGAN BUDGET:						
Budget Authority	22	– –	– –	– –	– –	– –
Authority to Borrow	130	172	118	152	149	136
Outlays	171	165	180	194	144	152

Program Description

The Act which established the Rural Telephone Bank in 1971, authorized the U.S. Government through annual appropriation, (not to exceed $30 million annually) to furnish capital to purchase class A stock in the Bank until the total of such capital reaches $300 million. That objective will be achieved by the end of FY 1981.

The Act requires that the funds provided by the Treaury for the purchases of such capital stock shall bear interest at the rate of 2 percent per annum, and that retirement of the stock shall begin as soon as practicable after FY 1985, so long as such retirement does not impair the operations of the Bank. It is the intention of the Act that the Bank shall become self sufficient and independent of the Federal Government at the time all class A capital stock purchased by the Government has been retired.

The 2% funds are mixed with funds which the Bank receives from other sources at higher interest rates (e.g., 10% dividends on class B stock, 7% dividends on class C stock and 12 5/8% on current cost of other borrowing) in order to provide funding to eligible borrowers (telephone companies and cooperatives) at interest rates less than normal market rates.

The Carter Budget proposed that the authority to purchase class A capital stock be extended through fiscal year 1985, but be limited to $22.5 million annually until the total of such purchases reaches $390 million. Legislation would be submitted to the 97th Congress.

Proposed Change

Do not propose legislation authorizing purchase of additional capital stock beyond FY 1981.

Rationale

Termination of this program will reduce Federal subsidies.

The President's Budget Reform plan proposes to significantly reduce Federal activities that fail to assure cost–effective use of tax resources or that don't contribute to the President's commitment to a market–directed policy.

Telephone companies (even in rural areas) should be encouraged, as are other private enterprise undertakings to depend more heavily on private money markets for capital and less on the Federal Government. The continued availability of Telephone Bank lending assures assistance to those telephone companies and cooperatives which serve isolated areas where subscriber density is so low that it may be uneconomic to attempt to provide telephone service at rates which subscribers could afford.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Key Facts About the Program

- The $300 million in capital stocks authorized by the act to get the program started has has already been subscribed by the Federal Government.
- The infusion of additional Federal funds at 2% interest tends to exacerbate and perpetuate the problem of hidden subsidies.
- Even without Government subscription to capital stock, the telephone bank will still have the opportunity to borrow from the Treasury at the Treasury borrowing cost, a more favorable interest rate than is available in the private market.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Special Milk Program

Agency: Department of Agriculture

Functional Code: 605

Budget Reform Criterion: 1,6

Funding

	($ in millions)					
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	119	125	129	136	146	155
Outlays	115	117	122	128	137	145
REESTIMATES & ADJUSTMENTS:						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
PROGRAM CHANGES:						
Budget Authority	--	95	98	102	108	113
Outlays	--	90	92	96	101	107
REAGAN BUDGET:						
Budget Authority	119	30	31	34	38	42
Outlays	115	27	30	32	36	38

Program Description

The Special Milk program subsidzes half-pints of milk served in schools. The subsidy covers the full cost of milk for needy children and part of the cost for others.

Proposed Change

Eliminate special milk subsidies in schools that participate in other federally subsidized meal programs. Milk is also susidized as part of the school lunch and breakfast programs.

Rationale

- Special milk subsidies duplicate those funded by USDA subsidized meal programs. Needy children will continue to receive fully subsidized milk through those programs.
- Many schools have already dropped the separate milk program because it duplicates the milk served as part of the school breakfast and lunch programs. Special Milk adds administrative burdens in tracking and claiming milk subsidies separately from meal subsidies. In the context of fiscal restraint, the Special Milk program is a low priority — a position taken by many school food service directors.

Key Facts About the Program

- Under administration proposals in 1982, milk subsidies in school meal and milk programs will exceed $450 million.
- Eighty million dollars is spent on milk in the regular meal programs and an additional $115 million in the Special Milk program.
- This program has been slated for reduction or outright elimination by every President since John F. Kennedy.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Special Supplemental Food Program for Women, Infants, and Children

Agency: Department of Agriculture

Functional Code: 605

Budget Reform Criterion: 6

Funding

	($ in millions)					
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	927	1,068	1,068	1,068	1,068	1,068
Outlays	903	994	994	994	994	994
REESTIMATES & ADJUSTMENTS:[1/]						
Budget Authority	- -	−17	−17	−17	−17	−17
Outlays	50	−17	−17	−17	−17	−17
PROGRAM CHANGES:						
Budget Authority	- -	−326	−327	−327	−327	−327
Outlays	- -	−270	−253	−253	−253	−253
REAGAN BUDGET:						
Budget Authority	927	725	724	724	724	724
Outlays	953	707	724	724	724	724

1/ Represents savings associated with nutrition consolidated grant for Puerto Rico

Program Description

The Women, Infants and Children (WIC) program funds food supplements (milk, cheese, eggs, cereals, juices, formula) for pregnant or nursing women, and infants, and children up to age 5. WIC has grown rapidly in recent years with monthly average caseloads increasing from 300,000 in FY75 to 2.2 million in FY81 and with costs rising from about $100 million to nearly $1 billion. Many WIC recipients also receive other Federal nutrition benefits, primarily food stamps.

Proposed Change

Reduce FY82 WIC appropriations request to $742 million — a 20% reduction from the FY81 level. Alone this would reduce average monthly caseloads by about one-third. Caseloads would average 1.5 million in FY82 rather than 2.2 million proposed in the prior administration's budget. Under existing priorities, WIC clinics ought to serve pregnant or breast feeding women and high risk infants first. Lower priority would be given to postpartum, non-breastfeeding women and older children ages 1-5 with bad diets but no *measurable* nutritional deficiencies. Under the Reagan proposed funding level, the highest priority recipients could continue to be served.

Rationale

- WIC expanded explosively over the past six years — increasing in participation by over 700% and in spending by nearly 1,000%. This expansion paralleled rapid growth under the Food Stamp Act of 1977, and in the school meal and child care feeding programs.
- WIC benefits are available to families with incomes over 195% of the poverty level, or over $17,000 per year for a family of four. Most WIC clinics do not verify recipients' income data and WIC benefits are not exclusively available to the poor.
- Some medical evidence indicates that WIC food supplements help increase infant birthweight and reduce infant mortality. Yet 52% of WIC current recipients are not pregnant women nor infants, but older children up to age 5. Many of these children have no measurable nutritional deficiencies but are eligible on the basis of bad diets. There is little evidence that WIC food supplements help children who have no demonstrated nutrition problem and studies by the Center for Disease Control suggest that WIC may contribute to obesity in some children. At the recommended funding level, WIC resources will be targeted on those most likely to benefit from WIC food supplements, low-income pregnant women, nursing mothers, and their infants with identified nutritional deficiencies.

Key Facts About the Program

- USDA Inspector General audits in 1980 in 10 states with largest WIC programs showed significant abuse by WIC food vendors, including sales of ineligile foods, overcharges for food sold, and redemption of food vouchers in excess of food actually sold.
- 20% of WIC funds are used for overhead costs (salaries, etc.) rather than direct benefits.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

User Charges for Grain Inspection and Cotton and Tobacco

Agency: Department of Agriculture	Functional Code: 352	Budget Reform Criterion: 3

Funding

($ in millions)	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	49	32	34	36	37	39
Outlays	52	33	34	36	37	39
REESTIMATES & ADJUSTMENTS:						
Budget Authority	--	-1	-3	-5	-6	-8
Outlays	--	-1	-3	-5	-6	-8
PROGRAM CHANGES[1/]:						
Budget Authority	--	-24	-24	-24	-24	-24
Outlays	--	-24	-24	-24	-24	-24
REAGAN BUDGET:						
Budget Authority	49	7	7	7	7	7
Outlays	52	8	7	7	7	7

1/ The Carter budget already included savings for the cotton and tobacco portion in the following amounts:

	1981	1982	1983	1984	1985	1986
Budget Authority	--	24	24	24	24	24
Outlays	--	24	24	24	24	24

Program Description

The Federal Grain Inspection Service (FGIS) of USDA was established in 1976 to assure that grain exports and domestic shipments are accurately graded and weighed. FGIS uses Federal employees to grade and weigh grain, and also authorizes this work to be conducted by certain State and private agencies.

The current law authorizes FGIS to assess a user charge for the costs of grain grading and weighing activities, but does not allow recovery of the costs of supervising these activities.

The Agricultural Marketing Service (AMS) of USDA establishes product standards and provides classing, inspection and grading services for cotton, tobacco and naval stores. These standards and services aid in the conduct of commerce between buyers and sellers of these products. AMS also inspects warehouses in order to determine their financial and product storage conditions.

Proposed Change

Legislation is being proposed to allow USDA to recover the costs of supervising grain grading and weighing operations, in addition to the current authorization to recover the cost of nonsupervisory operations.

Legislation is also being proposed to allow USDA to recover all of the costs associated with cotton classing, tobacco and naval stores grading, and warehouse examinations and inspecting, and licensing.

Rationale

As a matter of equity, costs which can clearly be identified as benefiting a limited group should be repaid by the beneficiaries.

The legislation would include recovery of headquarters costs relating to grading and weighing operations since these costs are an integral part of the service being rendered. However, the costs of standardization, (establishing uniform standards, and developing new grading technology) and compliance (assuring compliance with laws and delegation of activities to the States) would still be funded by appropriations.

Because cotton classing, tobacco grading, naval stores inspections and warehouse examinations have become an integral part of the marketing activity, it is also appropriate to recover these costs. The legislation would include all costs associated with these programs.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Key Facts About the Program

Over 90% of the voluntary grading and inspection program costs for meat, poultry, dairy products, and fresh and processed fruits and vegetables are funded through industry assessments.

These proposals are expected to have minimal impact on the firms in the industry. After deducting the value of the sample, cotton classing could cost about one dollar per bale and tobacco grading could cost one-half cent per pound. For grain, the additional cost is expected to be about .0042 cents per bushel of grain inspected at terminals.

The 1976 amendments to the Grain Standards Act authorized recovery of both supervisory and nonsupervisory costs. This legislation was amended in the 1977 Farm Bill to exclude the recovery of the costs of supervision.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis