

Preface

Domestic programs and their budgetary implications will be scrutinized closely during the 99th Congress and the second term of the Reagan administration. Can further cuts in these programs reduce massive federal deficits? Or must spending cuts be made either in social security entitlements or in defense appropriations? Can the Reagan administration succeed in shifting many public functions from the federal government to the states? Would such transfers affect public support for these programs? Is a shift away from federal responsibility and control desirable?

A forthright evaluation of domestic programs was conspicuously absent during the recent election campaign. Public debate about domestic priorities during the fall of 1984 was partisan and political, with ideological statements and misinformation the rule rather than the exception. In contrast, the urgency of the issue of the federal deficit, and of the unusually high interest rates the deficits cause, will now require elected officials to pay close attention to details of the domestic budget in defining public priorities for the next term. This will require facts about program operation, analysis of program outcomes, and knowledge of the budgetary consequences of policy alternatives.

This book provides the kind of analysis needed for this crucial debate about federal policy. It offers a serious and in-depth evaluation of domestic programs and priorities, with coverage of a broad range of issues, from education and welfare to urban transportation, from housing policy to environmental regulation. It supplies a framework for assessing the pro-

posals of the New Federalism and the consequences of continued trade deficits.

This book presents the views of a group of nationally prominent economists, including many who have served in policymaking positions in the administrations of both parties. It carefully summarizes the recent history of government policies and their outcomes. The authors review program priorities and offer proposals for the future. The analysis is addressed to a wide audience and is enriched by lively commentary and discussion by economists knowledgeable about each of the substantive programs.

The authors present no unified opinion about what our domestic priorities ought to be. There is, however, a general consensus as to appropriate directions in a number of areas. The analysts clearly sense that we ought to move to less intrusive federal command and control and also to greater state involvement in a number of programs such as transportation, education, and the environment. The New Federalism receives substantial support in many areas, not involving poverty and welfare, from a group of economists who supported a stronger federal role a decade ago.

Despite this intellectual shift, the authors present convincing evidence that the Reagan program is really a federal budget-cutting exercise in disguise. They have forceful and controversial ideas about desirable reforms. They believe that substantial reductions in expenditures would adversely affect the quality of domestic programs.

The economic perspective of the authors is an important one, given the current policy debate and the budgetary emphasis. Economic analysis of the 1983 federal budget indicates that spending on national defense amounted to \$201 billion, and spending on social security, veterans' benefits, and interest came to over \$442 billion. With a federal budget of \$820 billion and political promises not to cut defense or social security, the administration appears committed to cuts in the remaining \$240 billion. It is hard to see how a deficit of roughly \$200 billion can be removed by domestic cuts alone. The only options appear to be tax increases, large and growing federal deficits, or blind faith that growth in the economy will alleviate all problems.

Economists familiar with programs and outcomes clear up the often confused and confusing facts. For example, authors Sheldon Danziger and Daniel Feaster demonstrate irrefutably that poverty did increase under the first term of the Reagan administration. From 1978 to 1983 the poverty rate increased from 11.4 percent to 15.2 percent, while real dollars of federal aid to the poor decreased by more than one percent. Commentator Jennifer Wolch shows that many of those removed from

the poverty rolls were in serious need of assistance—these are the “service-dependent” poor, who suffered severely during the first Reagan term. Further budgetary cuts in welfare can only exacerbate their problems, problems which cannot be cured simply by the benefits of a growing economy.

Sherman Maisel’s economic analysis of housing programs clarifies the effects of current subsidy policies and of the alternative programs proposed by the administration. Housing affordability is a spreading problem, argues Maisel, despite the fact that 75 percent of federal housing subsidies go to the non-poor. John Kain claims that the most pressing domestic social problem in America is discrimination in the housing market. His detailed analysis of the 1980 Census of Housing suggests that some gains have been made in reducing residential segregation.

Campaign press releases indicated that student test scores had improved as a result of government programs. Economist Richard Murnane provides a detailed analysis of outcomes and program effects. He finds that reading skills of students have improved over the past decade, but that math and science skills have declined substantially. How can this crisis in education be resolved, especially in light of the need for budgetary savings? Murnane argues that the program and its solution lie in the labor market for teachers and suggests some important, but inexpensive, reforms to make it operate more effectively.

The economic analyses of domestic programs in this book conclude that there are real opportunities to reduce the federal deficit—by applying the principles of the New Federalism to revenues as well as expenditures in the federal domestic budget, and by reducing and redirecting intergovernmental grants. In fact, recommendations presented here suggest that a large share of the current deficit could be eliminated by such reforms. The detailed discussion and commentary that follows the papers provides thought-provoking and valuable recommendations for action.

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