BOB DOLE
KANSAS

United States Senate
OFFICE OF THE MAJORITY LEADER
WASHINGTON, DC 20510

September 13, 1985

MEMORANDUM

TO: SENATOR DOLE

FROM: GEORGE PIELER

SUBJECT: FORD FOUNDATION TALK, 1:00 P.M., SEPTEMBER 13 AT THE MADISON HOTEL

Attached are materials for your talk to the Ford Foundation Executive Panel on Social Welfare Policy. The attached materials discuss how attitudes toward welfare policy have changed under the Reagan Administration and under current budget constraints. Also attached are talking points on the deficit problem.

Atts.

Ford Foundation Executive Panel on Social Welfare Policy

Madison Hotel

September 13, 1985

What we have learned about social welfare policy

- If we have learned anything new about fostering social welfare over the past five years, it is that direct Federal programs--whether in the form of grants, benefit payments, or incentives--are far from the only way the Federal government can promote the welfare of our citizens. Encouraging State and local initiative is just as important--and most important of all is to set Federal economic policies that maximize growth, opportunity, and new job creation without rekindling inflation.

- During the '70's there was a lot of talk about welfare reform, about using the tax code and the block grant approach to make Federal welfare policy more flexible and more effective. The days of comprehensive welfare reform schemes seem to be past--but a lot of the thinking that went into those plans has had a real impact on our policy choices in recent years.

- For example, with only limited Federal involvement, the concept of 'workfare' has taken off in many States: not to burden welfare recipients, but to give them the best possible chance to escape the welfare trap. And while few people talk about the negative income tax these days, one of the chief goals of President Reagan's tax reform plan is to take low-income taxpayers off the tax rolls altogether. That reflects the sensible notion that, before the government can determine how to help the needy, it ought to make certain it's not imposing additional burdens on the needy. The Reagan plan would eliminate income taxes on virtually everyone at or below the poverty line.

- It is difficult to talk about social welfare policy in the 1980's without considering the context of the budget debate and the increasingly severe restrictions on our fiscal policy. The need to revive our economy by controlling spending and deficits, and keeping inflation under control, has limited our ability to spend on social welfare programs. And that forces us to make choices.

Budget Constraints and Policy Development

- Choices have been made in shaping recent budgets, and many of them have to be regarded as positive developments. The concept of a 'social safety net' to be preserved against excessive budget cuts is an explicit recognition that government transfer payment programs have broad consensus support, and that the Federal government will undertake to meet its commitment to program beneficiaries. Moreover, that principle applies not just to so-called 'welfare' programs that benefit the needy, but to basic benefits under non-means tested programs such as social security and Medicare.

- On the other side of the coin, our obligation to use every Federal dollar with maximum efficiency and target benefits to those most in need has clearly been recognized. So while we work to preserve basic benefits for food stamps and AFDC, we strive to reduce error rates and get undeserving beneficiaries off the rolls. Programs that we think have proven effective--like Head Start and WIC--get our support, while programs that seem less efficient--like WIN--may have less of a claim on the taxpayer's dollar.

- In addition to helping us target benefits most effectively, our fiscal constraints are helping us sort out social welfare functions that are best handled at the Federal, State, and local level. This as much a <u>de facto</u> result of the budget debate as it is a planned change in direction: with restrictions on Federal resources, States and localities become more the focus of innovations in welfare policy. In fact, the reemergence of the States as leaders in policy innovation is one of the most interesting stories of the 1980's--and one that goes far beyond the area of social welfare.

Prognosis

- The Federal role in promoting social welfare--and the limits on our ability to finance welfare expenditures without undermining our economic performance--will continue to be a subject of active debate. So will the choice of welfare policies that enhance, rather than undermine, individual motivation to escape the welfare trap, and reinforce the vital roles of family, church, and community in safeguarding those who, for no fault of their own, need assistance and understanding. But we have learned that the most responsible--the most compassionate--government policy is to foster a healthy economy and ensure that productive jobs are available for those who try to make it on their own. To do that, we must first and foremost control government expenditures and reduce our budget deficit.

ESCALATING DEFICIT

The main threat to continued economic expansion is run-away Federal spending.

- Since 1940, the Federal Government has run deficits in 37 out of the last 45 years. Since 1960, we've run deficits in 24 out of 25 years.
- In 1985, the gross Federal debt will total $1,841 trillion, an increase of 533% over 1960, 238% over 1975, and 101% over 1980. The total debt in 1985 now stands at 48% of our GNP.
- With no changes in Federal spending policy, CBO projects that Federal outlays will rise from $950 billion in 1985 to $1,378 trillion in 1990--an increase of $428 billion in five years.
- If no changes are made, the budget deficit will increase from $214 billion in FY 85 to $300 billion in 1990 and the National debt will increase to $2,786.

INTEREST ON THE DEBT

This massive increase in debt has itself created one of the largest and fastest growing components of Federal spending--interest on the debt. Constant deficits have put fiscal policy on an endless treadmill of paying for the irresponsibility of previous decades:

- In 1965, interest on the National debt cost $9 billion and consumed 1.4% of GNP. By 1980, annual interest costs rose to $52 billion--2% of GNP. But the worst was yet to come.
- In 1985, interest on the National debt will cost taxpayers $130 billion--almost three times the level of five years ago. This represents 3.8% of GNP, 13.5% of the entire 1985 budget, and a 1,450% increase in costs over 1965.
- $130 billion is equal to the sum total of all Federal spending from 1789--the founding of the Republic--to 1936. It also equals total Federal outlays in 1966, the entire defense budget in 1980, and twice the level of medicare funding today.
- To put it in even simpler terms, about 40% of all revenue collected by the Federal Government from personal income taxes ($330 billion in 1985) will go to pay interest costs and no Federal services at all.

THE DEFICIT AND THE AVERAGE AMERICAN

- Unless we enact a massive deficit reduction measure, American families will face either higher interest rates or higher inflation: not to mention the risk of a disastrous new recession throwing millions of breadwinners out of work.

- Most economists believe that enactment of the deficit reduction package as large as the Senate offer will produce a drop of at least 1 percent in interest rates over the short run and 2 to 3 pecentage points over the long term: relative to what they otherwise would be.

- With a 2% drop in interest rates, the monthly payment on a median priced home ($80,000) will go down by about $100 a month.

- Conversely, if we don't reduce the deficit to keep rates as low as they are now, homeowners could face that large an increase-or-more in monthly payments.

- A 2% drop in interest rates would mean an additional $4,000 in income for the average wheat farmer with a 1,000 acre operation.

- This year alone, the Federal government will overspend close to $1,000 for every man, woman and child in America.

- This $1,000 per head of additional Federal debt will be one more burden for our children to repay in higher taxes or higher inflation in the future.

- I don't believe we can let this budget negotiation fail. If we don't act now on major deficit reduction, the American people will pay the price. By 1989, interest on the debt alone would take up half of all individual income tax payments. The interest cost would be $250 billion or $1,100 for each American.

- If we can get something like this package I am very, very optimistic about the course of the economy. I think we take too much for granted what we have achieved so far: strong growth without inflation. We can keep that going if we reduce the deficit substantially. The way is open to economic performance unprecedented in the postwar period if we have the will to find it.

September ~~Thurs~~ 13 ~~Thurs. 7~~ Fri.

Contact: Peggy Lord

THE FORD FOUNDATION
320 EAST 43RD STREET
NEW YORK, NEW YORK 10017

at Madison DC

12:30 - Luncheon
1:00 SPEAK

The Honorable
Robert Dole
U. S. Senate HB 141
Washington,
D.C. 20501

July 26, 1985

Dear Senator Dole,

You were outstanding when you addressed the National Urban League Conference this week. Your talk was perfect, with just the right amount of humor coupled with a forthright discussion of the more serious issues. It gave me great pride both as a Republican and a Vice Chairman of the NUL Board to witness the fine reception you received. The NUL does not actively boo and hiss, but it occasionally comes up with a less than enthusiastic reception. Not so with you! Congratulations.

Your meeting with Jake, Eddie, Ben, Vernon, etc. and your colleagues was fine move and aparently was most successful. It gave hopes for better communications in the future, some of which were reflected in John Jacob's messages to us at the Conference.

20 people

I am writing you this letter in behalf of Irving Shapiro, Chairman and the other distinguished members of the Ford Foundation Panel on Social Welfare Policy. So many of them expressed hopes that you would be able to meet with them for a half hour or so when they are in Washington for a Panel meeting on September 12th and 13th.

A list of the Panel members is enclosed along with an article from the Ford Foundation letter which explains the formation of this special project and the mission.

In short, the purpose of this study is to reexamine three basic questions: who should be helped, what form should the assistance take and how should it be financed? We are hoping that our guests will reflect their own thinking from their philosophical orientation in a twenty minute talk. It is completely off the record and will probably take place around a table in a meeting room at the Madison Hotel. Presumably the Panel members will have some questions and an open discussion will follow your remarks.

The group convenes on Thursday evening, September 12th at the Madison Hotel where we will have a small reception for some Washington persons to meet the Panel members. We hope you can attend that, but more importantly we hope that you will be able to find thirty or forty minutes on Friday, the 13th when you can meet with the Panel alone.

We know how busy you are and how many persons and groups are

8/13 Advised Peggy Lord Sen. would do
8/13 Bio sent to Dr. Charles Hamilton
8/14 Copy to Joyce,

THE FORD FOUNDATION
320 EAST 43RD STREET
NEW YORK, NEW YORK 10017

making demands on your time (to say nothing of the budget). Therefore we would alter our schedule to accomodate you any time on Friday from breakfast until we adjurn at 4:00 pm.

I have spoken to Betty Meyer who explained the hectic nature of your schedule. However, we are hopeful.

Thank you for anything you can do.

Most sincerely,

Peggy Lord

Margaret P. Lord
Consultant

Special Report:

One of the most important challenges facing modern democratic societies is to find ways to ease the strains and stresses of the "welfare state." Few topics are more crucial to the social, economic, and political viability of contemporary democracies. Most industrial nations are struggling to meet the needs of their people while facing increasing limitations on their fiscal resources. The policy choices they must make suggest the need to reexamine fundamental national values and commitments.

In 1982, the Foundation's Board of Trustees encouraged the staff to begin work on a project that would look beyond the short-term remedies that have typified most industrial countries' responses to soaring social expenditures. The usual approach of governments has been to tinker with the design of social programs or to engage in drastic budget-cutting. What was needed, in the view of many experts, was a comprehensive reexamination of the purpose of social insurance and welfare, of the costs of social services and the capacity of governments to sustain them, and of possible alternative ways to provide these services.

Social programs have undergone rapid growth over the past two decades. In 1965 expenditures for such programs accounted for less than 12 percent of the U.S. gross national product; by 1980 this figure had increased to more than 20 percent of GNP. In the same period, social program expenditures increased from roughly 30 percent of total federal spending to more than 54 percent. There have been, however, variations in spending by program. For example, from 1950 to 1979, expenditures for social insurance rose from 21 percent to 46.5 percent of total government spending; the increase for public assistance was from 10.6 percent to 14.7 percent; and health and medical spending increased from 13 percent to 21.1 percent.

Since the economy was growing through much of this period, few people challenged this expansion. In the 1960s especially, increased citizen demands for public goods and services contributed to a major expansion in the range and size of social programs. Many of these programs provided "entitlements" to medical care, housing, student aid, special education, food and nutrition services, and child care. Citizens with incomes well above those of the "deserving" poor shared in the social benefits.

By the mid-1970s conditions began to change. Economic growth slowed and inflation took off. Yet the costs of social programs continued to grow as a result of high

The Future of Social Insurance and Welfare

inflation and then severe recession. By the early 1980s attention shifted to ways of controlling the cost and reducing the scope of social programs.

Neither budget-cutting nor program reforms satisfactorily addresses the long-term problems confronting the United States and other "welfare states." People across the political spectrum believe we need to reexamine the basic premises of current social programs and then fashion an equitable and manageable system of social protection for future generations.

Few suggest a wholesale dismemberment of all that has been established. Some, however, would set sharp limits on who should be helped and for what purposes. They believe that the private sector and the market economy should relieve government of much of the responsibility for meeting people's social needs.

Others believe that social problems are embedded in the way our societies are organized and that the crisis of the welfare state derives from the competing forces of market economies. For them, what is needed is a basic restructuring of the way nations manage their societies and economies.

Any examination of the future of the welfare state must come to grips with the changing nature of the family and work, and changing demographics in the country. Increased longevity, advancing technology, greater geographic mobility, and expanded opportunities have fundamentally changed the way many Americans live. Some social analysts believe that it is important first to look at the underlying values of democracy before laying out a blueprint for the future. They believe that the question of what the state should do for its citizens is first and foremost philosophical, and that we now need a reexamination of the basic principles of liberty, equity, and security.

In the classic constitutional sense, liberty means the protection of the citizen from arbitrary state power. But another view of liberty holds that a citizen, in order to be fully free, must be educated, fed, decently housed and clothed, and in good health. The first conception of freedom would lead to a free-market approach to meeting social needs; the second conception leads to a "social state" approach. Adherents of both views agree there always will be some who need help, which brings up the basic questions of who should be helped, in what ways should they be helped, how should the help be paid for, and who should do the helping.

First, who should be the beneficiaries? Should social protection be targeted only to the most vulnerable members of society, or should it be extended to all?

The question of financing must next be addressed. That requires an exploration of such matters as contributory versus noncontributory benefits, tax expenditures versus tax incentives, and the effect on domestic social policy of global economic interdependence and foreign competition.

The third problem relates to the implementation of social policies. What should be done at the national level? What functions can be devolved to state and local governments? How should public and private resources be combined to meet social needs?

Committees to Guide Welfare State Project

Three committees will guide the interrelated program of research, policy analysis, and public discussion initiated by the Foundation. Overseeing the project will be an executive panel currently consisting of thirteen members. Chairman of the panel is Irving Shapiro, former chief executive officer of the du Pont Company and a member of the Foundation's Board of Trustees. The project director is Charles Hamilton, Columbia University professor of government.

Other members of the executive panel: Sol Chaikin, president, International Ladies Garment Workers Union; Ralf Dahrendorf, professor, Universitat Konstanz (West Germany); James Ellis, Seattle attorney; Robert Erburu, president, Times Mirror Co., Los Angeles; John Filer, chairman, Aetna Life and Casualty Co.; Hanna Gray, president, University of Chicago; Patricia Roberts Harris, professor, National Law Center, George Washington University; Albert Hirschman, professor, Institute for Advanced Study, Princeton, N.J.; Vernon Jordan, attorney, Washington, D.C.; Eleanor Holmes Norton, professor, Georgetown University Law Center; Henry Schacht, chairman, Cummins Engine Co.; and Mitchell Sviridoff, president, Local Initiatives Support Corporation.

Members of the research advisory committee include Hugh Heclo of Harvard University, chairman; Fay Lomax Cook, Northwestern University; Albert Fishlow, University of California (Berkeley); Edward Gramlich, University of Michigan; Ira Katznelson, New School for Social Research; and William Wilson, University of Chicago.

Members of the policy advisory committee are: Robert Reischauer, Urban Institute, chairman; Mary Jo Bane, New York State Department of Social Services; Jack Meyer, American Enterprise Institute; Steven Minter, Cleveland Foundation; Alice Rivlin, Brookings Institution; Donna Shalala, Hunter College; and Matthew Holden, University of Virginia.

Such complex and important questions need to be examined from a variety of perspectives. The Foundation has therefore initiated an interrelated program of research, policy analysis, and public discussion, under the guidance of an executive panel and two advisory committees (see box).

In the research component, an advisory committee of experts will recommend to the Foundation the studies needed. It may not be necessary to sponsor much original research since a considerable amount already exists. There is a need, however, for synthesis and fresh analysis. Among the subjects that will require more in-depth work are: the effects of social welfare programs on work, savings, labor mobility, and family stability; long-term welfare dependency and the intergenerational transmission of poverty; public/private approaches to social welfare; and the effects of international developments on domestic social policy.

The policy component will engage a changing cast of policymakers and practitioners to suggest alternative approaches. They will participate in forums and seminars that will address the policy implications of the research conducted as well as the suggestions made by the public and by the executive panel. The meetings will involve people who have had "hands-on" experience in social policy. Their insights and experience will provide a bridge between the various suggestions and what is politically and administratively feasible. As with the research component, the policy segment will be guided by an advisory committee.

A third component will operate through an experimental format that will engage a broad cross section of the public in a dialogue on social insurance and welfare. For instance, there might be town-hall discussions held in local community colleges, in senior citizen forums, in sessions involving labor unions and business associations, and in the press, radio, and television.

The executive panel will conduct its own discussions and explorations and deliberate on the results produced by the research, policy, and public discussion components. The panel will then issue a policy statement setting forth its views on our national commitment to the welfare of the aged, disabled, unemployed, and other economically vulnerable members of society. The aim of this statement will be to help focus the nation's attention on the need for medium- to long-term solutions to the problems of social protection and to offer a series of steps to achieve them.

FORD FOUNDATION

EXECUTIVE PANEL: SOCIAL WELFARE POLICY PROJECT

Irving Shapiro, Esq. (Chairman)
Skadden, Arps, Slate, Meagher & Flom
P. O. Box 636
One Rodney Square (cor. 10th/King Sts.)
Wilmington, Delaware 19899
(302) 429-9200

Sol Chaikin, President
International Ladies Garment Workers Union
1710 Broadway
New York, N.Y. 10019
(212) 265-7000

Ralf Dahrendorf
Professor of Social Science
University of Konstanz
Postfach 5560
D7750 Konstanz, Germany
49-7531-882892

James R. Ellis, Esq.
Preston, Thorgrimson, Ellis & Holman
2000 I.B.M. Building
P. O. Box 2927
Seattle, Washington 98111
(206) 623-7580

Robert F. Erburu
President and Chief Executive Officer
Times Mirror
Times Mirror Square
Los Angeles, California 90053
(213) 972-3700

John H. Filer, Chairman
Aetna Life and Casualty Company
Hartford, Connecticut 06156
(203) 273-0123

Hanna H. Gray, President
University of Chicago
5801 South Ellis Avenue
Chicago, Illinois 60637
(312) 962-8001

Albert O. Hirschman
Professor of Social Sciences
Institute for Advanced Study
Princeton University
Princeton, New Jersey 08540
(609) 734-8252

Vernon Jordon, Esq.
Aiken, Gump, Strauss, Hauer & Feld
1333 New Hampshire Avenue, N. W.
Washington, D. C. 20036
(202) 887-4260

Eleanor Holmes Norton, Professor
Georgetown University Law Center
Georgetown University
600 New Jersey Avenue, N. W.
Washington, D. C. 20001
(202) 624-8364

Mitchell Sviridoff, President
Local Initiatives Support Corporation
666 Third Avenue - 14th floor
New York, New York 10017
(212) 949-8560

Henry B. Schacht
Chairman and Chief Executive Officer
Cummins Engine Company, Inc.
P. O. Box 3005
Columbus, Indiana 47102
(812) 377-3164

- - - - - - - - - - - -

Charles V. Hamilton
Wallace S. Sayre Professor of Government
Columbia University
The Ford Foundation
Project Director
320 East 43rd Street
New York, New York 10017
(212) 573-5056