The original documents are located in Box 8, folder "FY 1976 - 12/18/74, USDA Food Agencies, Human Resources" of the White House Special Files Unit Files at the Gerald R. Ford Presidential Library.

MEMORANDUM OF PRESIDENTIAL HANDWRITING

FILE CODE

DATE: 12/17/74

SUBJECT: Meeting with Roy L. Ash, 12/18/74, to make final FY 76 budget decisions for USDA food programs and several agencies in the human resources and community affairs areas; to consider appeal of previous Presidential determinations re HEW budget

LETTER **MEMO** **RECOMMENDED PHONE CALL**

NEWS SUMMARY **NEWS CLIPPING**

OTHER BRIEFING PAPER

TO: THE PRESIDENT

FROM: ROY ASH

NOTE: Above removed from Special Files Box #4

CHECKMARK ONLY _____

SENSITIVE - NO HANDWRITING _____

THE WHITE HOUSE

WASHINGTON

December 17, 1974

MEETING WITH ROY L. ASH
Wednesday, December 18, 1974
2:15 p.m. (60 minutes)
Oval Office

From: Roy L. Ash

I. PURPOSE

- To make final FY 76 budget decisions for USDA food programs and several agencies in the human resources and community affairs areas.

- To consider the appeal of previous Presidential determinations regarding the HEW budget by Secretary Weinberger.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: The FY 76 budget submissions for USDA's food programs and several agencies in the human resources and community affairs areas have been reviewed and the results have been relayed to the affected agencies. This meeting will focus on the issues raised during the above reviews that require Presidential consideration and determinations.

In addition, the meeting will provide an opportunity for Secretary Weinberger to appeal prior Presidential determinations regarding the FY 76 budget for HEW.

B. Participants: Roy L. Ash, Paul O'Neill, and Dale McOmber. For the latter part of the meeting Secretary Weinberger and perhaps Under Secretary Carlucci, Assistant Secretary for Education, Virginia Trotter, and Assistant Secretary for Health, Charles Edwards will attend.

C. Press Plan: David Kennerly photo

III. TALKING POINTS

A. Paul O'Neill, will you describe the issues raised by the USDA food programs?

B. Paul O'Neill, which of the agencies in the human resources or community affairs areas should we consider first?

C. Secretary Weinberger, what is the first issue you would like to raise as a part of your budget appeal?

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

DECISION

MEMORANDUM FOR THE PRESIDENT

FROM : ROY A. ASH

SUBJECT: 1976 Budget Decision: Department of Agriculture (Child Nutrition Program)

In his October budget submission Secretary Butz proposed and I recommend that the 1976 budget amounts for the Child Nutrition program include a proposal to substitute a comprehensive bloc grant program for the present set of fragmented and complex child feeding programs. Assistant Secretary Feltner is suggesting reconsideration of this recommendation in a recent letter (Tab A). Secretary Butz has not taken a position.

Background

The USDA goal in food and nutrition programs is to alleviate poverty-caused hunger and malnutrition by helping assure that needy families have access to sufficient resources for an adequate diet. However, the present set of child feeding programs are far more costly than necessary to achieve that goal since they:

- provide extensive subsidies to non-needy;
- duplicate benefits to many participants; and,
- result, to a significant extent, in substitutions rather than net addition to food that would otherwise be consumed.

Analysis

We have provided a summary of the pros and cons submitted by USDA to form the basis for your decision on whether to advance the bloc grant proposal at this time. We have added OMB comment on these arguments; the three major options together with their budgetary impact; and our recommendation.

USDA Arguments For:

The child nutrition bloc grant would provide:

- a comprehensive approach to program reforms;
- complete coverage for all needy children;
- simplification of complex and confusing administrative requirements;
- savings of $526 million in fiscal year 1976 and $563 million in 1977 and the out years in Federal operating expenses by elimination of numerous individual child feeding programs; and,
- State flexibility to adjust programs to local preferences.

OMB Comment:

- The bloc grant would provide 100% Federal funding to children for a complete year. However, current reimbursement covers approximately 65% of the cost of meals provided all children for a school year. Thus, States would be released from their obligation to fund the matching requirements mandated by P.L. 91-248 of approximately $400M which they could use to continue subsidy of non-needy children at their discretion.

USDA Arguments Against:

- Any reform which appears to deliberalize the program could bring a counter-effort for a universal feeding program;
- Congressional amendments could scuttle estimated savings;
- It would be difficult if not impossible to get Congressional approval of the proposal due to intense public interest group pressure;
- The Administration would be subject to accusations of neglecting children in general;
- States and especially local jurisdictions could be non-responsive or unfair in their treatment of needy children, and;
- Should surplus commodities again become available, donations would be made in addition to cash support for the bloc grant, rather than in lieu of cash as under current programs.

OMB Comment:

- While a universal feeding program is a threat, it is doubtful that there would be any significant support. There is a general feeling that the current program is more than sufficient. This is opposed by many because of the excessive costs and the fact that States and local jurisdiction would have to surrender their perrogatives.

- With regard to the consequences of the proposal on the disposition of surplus commodities, the proposal could be written to include authority to provide commodities as a substitute for cash under the bloc grant as long as nutritional requirements could be met.

- The USDA bloc grant assumptions underestimate the universe of needy children by approximately 1.0 million. However, while immediate savings would not be as large as USDA estimates, the overall savings in subsequent years will be substantial.

USDA staff has identified three alternatives:

USDA Child Nutrition Program Alternatives

Outlays ($ millions)	1975	1976	T.Q.	1977	1978	1979	1980
Alternatives:							
1. Do nothing	2,025	2,263	560	2,425	2,568	2,688	2,785
2. Bloc grant proposal	--	1,737	434	1,862	1,972	2,065	2,139
(savings)		(526)	(126)	(563)	(596)	(623)	(646)
3. Pare-down existing program 1/	9,830	2,005	500	2,036	2,156	2,257	2,329

1/ Eliminate School Breakfast, Special Milk, Special Supplemental Feeding program for Women, Infants, and Children (WIC) and Equipment Assistance programs.

Alternatives 1 and 3 are not responsive to the need for fiscal restraint, nor do they implement the policy of limiting Federal feeding subsidies to those in need. If, under alternative 3, we proposed that the specific needy oriented programs expire, the Administration would be exposed to the probable extension of those programs with programmatic increases at least as great as those experienced in the past.

OMB recommends, therefore, that the acceptance of the Child Nutrition bloc grant proposal be reaffirmed and that USDA be encouraged to provide the necessary support.

Decision

Approval _____

Disapproval _____

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

December 11, 1974

Mr. Paul H. O'Neill
Deputy Director, Office of
Management and Budget
Washington, D.C. 20503

Dear Mr. O'Neill:

In recent years, there has been a tremendous growth in the Department's food-oriented welfare programs until they now cost approximately $6 billion annually, two-thirds of our budget. Each year, Congress continues to broaden these programs, increasing their coverage and benefits. The Administration needs to develop a strategy to counter this trend. Director Ash, in his July 22 policy guidance letter to the Secretary, requested the Department to search out ways to do this.

Therefore, the Secretary proposed a program of block grants to States to replace the existing Child Nutrition Programs. We believe this is a workable alternative to the present programs. However, the recent election resulted in a Congress which is likely to want to extend benefits even beyond current levels. With high food costs, it is possible that public support could be generated for even greater Federal outlays. The central question, therefore, is whether this is the appropriate time to advance this block grant proposal. We believe that this may not be the right time for this proposal and that a better alternative would be to reduce existing programs. This decision needs careful consideration beyond the level of the Department of Agriculture. The considerations are discussed in detail in the attachment to this letter.

I will be happy to discuss this further with you and to provide any additional information you may need.

Sincerely,

Richard L. Feltner

Richard L. Feltner
Assistant Secretary

Attachment

CHILD NUTRITION PROGRAM OPTIONS

Background

In his policy guidance letter of July 22 to Secretary Butz, Director Ash said that bringing the budget into balance will require that the President propose to the Congress both a balanced budget and legislation to achieve that objective. He asked that we vigorously search out ways to change entitlement programs or otherwise check the growth of uncontrollable programs. In response to this request, the Secretary proposed the replacement of the Child Nutrition programs with block grants to states. The amount of the block grant would be based on the total number of needy children in the country. It would provide sufficient funds to meet one-third of the recommended daily allowance for these children. States would have broad authority to expand the program to cover all children through either the use of other funds, or by assessing higher charges to non-needy children, or by a combination of these.

Advantages. The block grant approach offers several advantages over existing programs. It would

-- Accept as a Federal responsibility assistance to needy children, but reject Federal responsibility for feeding all children;

-- Simplify the administration and reduce costs at the Federal level by eliminating separate programs now in existence dealing with school lunch, free lunch for needy children, school breakfasts, equipment assistance, grants to states for administrative expenses, non-school food programs, commodity donations, special milk, and special programs for infants and pregnant and lactating women;

-- Permit maximum flexibility at the state and local levels in designing programs which they feel are best adapted to their needs;

-- Present a comprehensive approach to program reform, a viable alternative to the overlapping and duplicative programs now in existence;

-- Reduce Federal expenditures by about $0.5 billion below the cost of existing programs.

Disadvantages. Despite the above advantages which the block grant approach offers, there are problems associated with the program which should not be overlooked and which may now be more serious than when the proposal was initially offered. The block grant proposal would

-- Open up child nutrition to major legislative changes, and provide the proponents of the "universal free lunch program" with an opportunity to offer their program as a viable alternative. This will come at a time when the Congress is more "one-sided" than it was when the proposal was offered. The cost of a universal free lunch program far exceeds current program costs and would come at a time when excess Federal spending is a critical national problem. (The proponents of free programs may offer this alternative anyway since several programs are scheduled to expire on June 30, 1975.)

-- Be subject to amendment by the Congress to increase the amount of the block grant to the point where it may actually cost more than current programs;

-- Be difficult to get approval from the Congress. The food service organizations will almost certainly oppose this proposal. The Administration could possibly be saddled with a "failure" in one of its key positions. In addition, the Administration will already have its hands full defending the recent decision to revise the food stamp program.

-- Possibly subject the Administration to accusations of neglecting children in general and the "near-poor" in particular, criticism which will have strong emotional appeal despite the fact that the program as proposed meets the Administration's commitment to the needy;

-- Result in the states eliminating the program in communities with a small percentage of poor children;

-- Create problems regarding commodity donations; complete elimination of commodity donations to schools would cause states difficulty in maintaining delivery systems for other donation programs. In fact, it may cause states to dismantle their commodity handling systems. Though Section 32 would still be available as a surplus removal vehicle, commodities may have to be donated in addition to cash support instead of substituting the surplus removal cost for cash support.

Alternatives. In view of the changes which have occurred since the initiation of the proposal in October, consideration should be given to the following alternatives. A table comparing the cost of these alternatives is attached.

I. Pursue the block grant proposal as orginally suggested by USDA.

II. Do as little as possible to change existing programs on the premise that the Congress, as it will be constituted, will only move in one direction -- toward greater Federal responsibility and larger Federal expenditures in this area. This assumes that we would support the simple extension of those programs which would otherwise expire on June 30, 1975.

III. Attempt to pare down existing programs by opposing extension of the school breakfast, non-school food programs, and women, infants and childrens programs, all of which expire on June 30, 1975. This approach might be as difficult to get through the Congress as the block grant approach, but it might result in some limited success. The programs could be pared down to a dollar level consistent with the block grant approach. WE FEEL THAT IN LIGHT OF THE ABOVE CONSIDERATIONS, THIS ALTERNATIVE IS THE MOST ACCEPTABLE ALTERNATIVE FOR THE DEPARTMENT.

Comparison of Child Nutrition Progarm Alternatives

	Alternative III	Alternative II
Child Nutrition Programs:		
Section 4; regular lunch	$488,000	$488,000
Section 11; Free and reduced-price lunch	845,000	845,000
School Breakfast 1/	- -	84,525
Equipment assistance	28,000	28,000
State Administrative Expenses	6,700	6,700
Nonschool Food 1/	- -	114,600
Commodities to States	448,750	448,750
Nutritional Training and surveys	1,000	1,000
Operating Expenses for Child Nutrition	13,000	13,000
Subtotal	1,830,450	2,029,575
Special Milk Program 2/	- -	133,563
W.I.C. 1/	- -	100,000
Total	1,830,450	2,263,138
Block grant (Alternative I)	1,737,000	1,737,000
Savings	93,450	526,138

1/ Authorization expires on June 30, 1975.

2/ This program, although authorized, could be eliminated if no funds are appropriated in 1976.

December 11, 1974

THE WHITE HOUSE

WASHINGTON

DECISION

MEMORANDUM FOR THE PRESIDENT

FROM: ROY L. ASH

SUBJECT: HEW Appeal of 1976 Presidential Decisions

We have reviewed the HEW memorandum which, although it aggregates the individual issues, appeals many of your initial 1976 budget decisions.

Your initial decisions would provide HEW with budget authority of $124.4 billion and outlays of $120.1 billion -- increases of $9.9 billion in budget authority and $11.6 billion in outlays over the 1975 levels. HEW is appealing for an add-back of $1.1 billion in budget authority and $824 million in outlays. HEW's appeal acknowledges the validity of higher estimates for uncontrollable programs resulting in a net increase in outlays of $412 million over its earlier budget request.

In order to provide an offset of $700 million to fund items in his appeal, Secretary Weinberger proposes legislation to limit the statutory Social Security adjustments to 8 percent. This compares to the estimated cost-of-living increase of 9 percent otherwise required for July 1, 1975. This is inconsistent with your public commitment to protect those hardest hit by inflation, e.g., the aged on fixed incomes. The Secretary's letter recognizes your public commitment, but would apply it to programs which are in fact neither income tested nor provide uniform benefits. We believe there is no chance of congressional acquiescence in such a proposal. In fact, such a proposal could stimulate an immediate statutory increase before the July 1, 1975, date.

We recommend that you reaffirm all but one of your initial decisions and reject HEW's new proposals for the reasons discussed in Attachment B. Our recommendation would accept only the HEW appeal of $12 million for NIH biomedical research.

Attachment A is a summary table that compares your initial decisions, the HEW appeal, and the OMB recommendation on those items appealed by HEW. Attachment B is a brief analysis of the proposals at issue and incorporates in full HEW's specific arguments for each of its appeals. HEW's appeal memorandum is at Attachment C.

Attachments

Attachment A

1976 Budget--Summary Table

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
($ in millions)

HEW Proposal		1974 Actual	BA in 1975 Pres. Decisions	1976 Initial Pres. Determinations	1976 HEW Appeal	1976 OMB Recom.
Social Services	BA	1,345	1,829	1,300	1,921	1,300
Health Services for the Poor and Disadvantaged Health Care system (HSA and ADAMHA)	BA	2,049	1,847	1,681	1,952	1,681
Preventive Health (CDC and FDA)	BA	307	333	324	341	324
Health Research						
NIH	BA	1,258	1,159	1,159	1,171	1,171
NCI Appeal	BA	527	565	590	(899*)	590
Education Grants to States (State Departments of Education, Handicapped Education, and State Student Incentive Grants)	BA	339	291	283	392	283
Vocational Rehabilitation Grants	BA	734	725	736	776	736
Other HEW Program Programs	BA	94,237	107,794	118,342	118,343	118,342
Total	BA	100,796	114,754	124,415	125,486	124,427
Total	O	93,635	108,498	120,055	120,871	120,064

* Cancer Institute appeal amount; HEW accepts the Presidential decision.

Attachment B

Individual Discussions

of

HEW Appeal Items

1976 Budget

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
($ in millions)

Program		1974 Actual	1975 Presidential Decision	1976 Initial Presidential Decision	1976 HEW Appeal	1976 OMB Recom.
Social Services	BA	1,345	1,829	1,300	1,921	1,300
	O	1,392	1,806	1,300	1,921	1,300

Initial Presidential Decisions

Your initial decision rests on the principle that a heavier sharing of the costs of social services by State and local governments will encourage improved administration and a more rigorous evaluation of the worth of these services at the local level. This incentive is consistent with the proposed new legislation which allows more management discretion at the local level. The 50% sharing of these costs by the States by 1977 is consistent with legislation you submitted to require the same matching in 1975 for medical and social services financed through the Medicaid program and the AFDC income support program. This program has never been able to demonstrate the efficacy of the services financed to a degree which would justify a higher Federal funding share than that provided under Medicaid.

HEW Appeal

"The allowance assumes that we will seek legislation to reduce Federal matching for social services under Public Assistance from 75 percent to 65 percent in 1976 and to 50 percent in 1977. Moreover, the dollar allowance is based on the assumption that States will spend no more than they now do on social service programs. This would result in a 25 percent reduction in combined Federal and State spending on social services in 1976. While it can be agreed that the current program is not as effective as it should be, a reduction of this magnitude is bound to have a severe impact on the poor.

"We have fought hard for legislation reforming the social services program, and such a bill recently passed the House with Administration backing. If this bill is not passed at this session of Congress, all of our prior negotiations will be down the drain if we attempt to cut Federal matching next

year. If it does pass, and an amendment is submitted next year, we will be accused of acting in bad faith and the proposal will very likely be ignored. Thus, I strongly recommend that you reconsider the decision to submit legislation reducing Federal matching for social services.

"Furthermore, as you know, there is a $2.5 billion ceiling on social services which simply means that if the States offer qualified services programs, they can draw the full amount. Therefore, all of our social services figures are estimates at best, and the full $2.5 billion may be required in any event. By the same token, we could arbitrarily lower our estimates of the total program level, as OMB has done and thus we would not need to add the full $621 million in outlays."

OMB Recommendation

We recommend that you affirm your initial decision, which assumes that State spending will not decline and may even increase slightly. If in fact the States increase their spending substantially, Federal spending would have to rise under the new matching formula. Your initial decision does make Federal matching rates for medical and social services consistent.

1976 Budget

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
($ in millions)

Program		1974 Actual	1975 Presidential Decision	1976 Initial Presidential Decision	1976 HEW Appeal	1976 OMB Recom.
"Health Services for the Poor and Disadvantaged" and "Improving the Health Care System" (HSA and ADAMHA)	BA	2,049	1,847	1,681	1,952	1,681
	O	1,539	1,960	1,839	1,969	1,839

Initial Presidential Decision:

Your initial decision provided for:

- a mandatory 20% cost sharing on the part of grant recipients for alcoholism, maternal and child health, family planning, migrant health, and drug abuse service projects;

- new starts in alcohol, drug abuse, and mental thealth research at $12 million within the $122 million total;

- a "no-new-starts-policy" beyond 8 year continuation support for the 600 existing community mental health centers; and

- maintaining the National Health Service Corps and Health Maintenance Organization demonstration programs at the 1975 levels.

These initial determinations reflected financing through Medicare and Medicaid as the appropriate Federal role and would encourage greater cost sharing on the part of grant recipients. In addition, the decisions reflected a policy of limiting direct Federal financing programs. This is particularly appropriate because, unlike Medicaid, these programs are not limited to the poor through income tests.

HEW Appeal:

"Health Services for the Poor and Disadvantaged"--The allowance assumes that we will seek legislation to increase State and local matching for the Department's special health service programs, including Neighborhood Health Centers, Maternal and Child Health, Migrant Health, Family Planning, Alcoholism and Drug Abuse. In my view, this is not a feasible proposal and would result in an arbitrary reduction of services to

people not now properly served by the Nation's health service delivery system. I believe that these programs should be held in place until Comprehensive Health Insurance is enacted and implemented. We have consistently maintained that insurance was a necessary and effective substitute for these programs, not that they were ineffective or unnecessary in themselves.

"Improving the Health Care System"--The allowance would cut back the Department's efforts to change the health delivery system to make it more responsive to National needs. I am particularly concerned that the National Health Service Corps be permitted to attract more health workers to rural areas, that a reasonable base be established for health services research, that the initial effort to encourage the development of HMO's not be stopped before it really gets started, and that efforts to improve health statistics move forward. Better data will assist our development of a comprehensive health insurance program and the improvement of existing health delivery systems.

OMB Recommendation:

HEW proposes, in effect, to expand the Federal role in direct delivery of health services.

We recommend affirming the initial Presidential decision on a grantee cost sharing of narrow categorical health service delivery programs in light of the Federal Government's $22 billion in financing programs -- Medicare and Medicaid. Such a strategy stressed a Federal role limited -- in the area of health services -- to financing through national programs rather than a series of project grants to a few favored grantees who fortuitously receive grants while citizens of other communities are limited to the more uniform financial assistance available under Medicare and Medicaid.

1976 Budget

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
($ in millions)

Program		1974 Actual	1975 Presidential Decision	1976 Initial Presidential Decision	1976 HEW Appeal	1976 OMB Recom.
Preventive Health (FDA and CDC)	BA	307	333	324	341	324
	O	296	325	339	350	339

Initial Presidential Decision

Your initial decision held food and drug inspections at the 1975 funding levels. It would, however, require a cost sharing of 20% in venereal disease and immunization projects by grant recipients.

HEW Appeal

"The allowance would halt the expansion of the Food and Drug Administration's consumer protection programs and reduce the Department's efforts to control venereal and other communicable diseases by 20 percent below current levels. We have made significant progress in these areas in recent years and we do not believe that this progress should be halted or reversed in 1976."

OMB Recommendation

We recommend affirming the original allowance, on the grounds that decisions on program levels in FDA cannot be definitively related to degrees of consumer health and safety. There is, for example, no objectively "right" inspection rate or level. Moreover, necessary program initiatives or expansions can probably be provided through reallocations from lower priority program areas. Finally, as compared to other areas (e.g., occupational cancer research), FDA is relatively well-funded at the allowance level.

We also recommend reaffirming your initial decision to reduce venereal disease and immunization project grant funding by 20% and require a 20% grantee match on the grounds that (a) it encourages tighter management on the part of grantees and more vigorous evaluation of program worth; (b) the Federal Government supports venereal disease and immunization activities primarily --and in substantially greater amounts than with project grants --through Medicaid; and (c) direct Federal project grant funding represents only a tiny portion of total State and local resources devoted to venereal disease and immunization activities.

1976 Budget

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
($ in millions)

		1974 Actual	1975 Presidential Decision	1976 Initial Presidential Decision	1976 HEW/NCI Appeal	1976 OMB Recom.
"Health Research"						
NIH	BA	1,258	1,159	1,159	1,171	1,171
	O	1,180	1,299	1,162	1,171	1,171
NCI Appeal	BA	527	566	590	899	590
	O	423	553	580	746	580

Initial Presidential Decision:

Your initial decision held NIH at the 1975 overall funding level in 1976, but increased the National Cancer Institute by $24 million over the 1975 level. Within the total allowance, research training funds were limited to support for 1,000 new postdoctoral fellowships.

HEW Appeal:

"The allowance for health research would hold all efforts outside the Cancer Institute to the exact dollar level of the 1975 revised estimate. This is an implicit 10 to 15 percent reduction in program output. Because we believe that other health programs have a higher priority than research this year, we do not appeal this general result. However, we would like an additional $12 million to carry out the new research mandated by legislation in areas such as aging, diabetes, and sudden infant dealth."

NCI Appeal: (from Dr. Rauscher, NCI Director)

"I feel compelled to appeal again the enormous discrepancy between our request and what is currently to be included in the President's 1976 Budget Request. The justification for this appeal is contained in the material submitted to OMB on November 29, 1974, and Mr. Benno Schmidt's November 22, 1974, letter to the President. I will simply summarize the main points:

1. The original request of $898.5 million and 2,366 positions is the amount necessary to make maximum progress in our fight against cancer. A minimum of $786 million and 2,225 positions is needed to allow the program to progress in an orderly way.

2. The original request included $68.5 million for the new Cancer Control Program. This amount is required to apply now the latest research findings to persons with cancer. This amount

is included in the $898.5 million noted above. The Cancer Control share at the $786 million level is $57 million.

3. We respectfully disagree with the policies limiting our use of funds for construction, training and cancer centers. The NCI and its advisors are in the best position to decide on the optimal use of these funds for the cancer program within the total finally appropriated.

This appeal is fully supported by the President's Cancer Panel and National Cancer Advisory Board. We appreciate the opportunity to call these matters to your attention and stand ready to discuss them with you at any time."

OMB Recommendation:

We recommend that you grant the HEW appeal to provide a $12 million increase in NIH research other than Cancer for legislatively "mandated" studies. HEW accepts your initial decisions on training policy.

With regard to the Cancer Institute, we recommend that you reaffirm your decision to provide a $24 million increase over the 1975 level and that you reaffirm the policies within the original decision.

The Science Advisor has recommended a $30 million increase for all health research without specifying particular areas.

1976 Budget

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
($ in millions)

Program		1974 Actual	1975 Presidential Decision	Initial Presidential Decision	HEW Appeal	OMB Recom.
"Education Grants to States"	BA	339	291	283	392	283
	O	280	295	329	342	329

Initial Presidential Decisions

Your initial decision would:

-- Carry out the 1975 decision to terminate Federal funding (-$39 million) for general operating support to State Departments of Education.

-- Require in education for the handicapped that State and local education agencies provide 50% of the grants for operational support programs and shift the $25 million saved from that action to innovative capacity building projects (-$25 million).

-- Eliminate provision of Federal matching funds ($44 million requested in FY 1976) for State Student Aid grants which treat students in different States unevenly and often do not allow the student to apply the grant to the school of his choice. This approach should be considered as part of an overall Federal policy on higher education now under review and, if proposed, should be designed equitably.

HEW Appeal

"I'm asking you to restore proposed budget reductions in the education support services grant consolidation (+$40 million), formula grants for the education of the handicapped (+$25 million), and State student incentive grants (+$44 million). The present allowance for grants consolidation is below the amount needed to trigger consolidation and would require a legislative amendment to HR-69, which stands no chance of being accepted.

The allowance for the handicapped would reduce current formula funding by 50 percent. The allowance for State student incentive grants would terminate a program which provides incentives to States to supplement Federal funds for student aid, the very direction which I believe we need to go in order to improve our student aid strategy. While I am not appealing the $530 million allowance for vocational education, I am afraid that we have little chance to achieve consolidation within that budget level, because we would need new legislation."

OMB Recommendation

Reaffirm your original decision to eliminate Federal funding for routine State administrative functions; require State and local education agencies to share in the funding of operational services; and, suspend funding of a poorly designed, inequitable and marginal student grant program in favor of the Basic Opportunity Grant (BOGs) program and a possible new initiative in higher education.

1976 Budget

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
($ in millions)

Program		1974 Actual	1975 Presidential Decision	1976 Initial Presidential Decision	1976 HEW Appeal	1976 OMB Recom.
Vocational Rehabilitation Grants						
	BA	734	725	736	776	736
	O	727	762	751	785	751

Initial Presidential Decisions

Your initial decision holds the program at roughly the current level. This reflects serious concerns about adequacy of program management by the States, and a proposal to return control of funding levels to the Appropriations Committees.

HEW Appeal

"The allowance holds grants to States for vocational rehabilitation services to the 1975 level of $680 million. We believe that the full authorization of $720 million should be funded in 1976 because of the requirements of the 1973 act to increase services to the more severely disabled. Even at $720 million, the total number served in this program will decline due to this new requirement and inflation."

OMB Recommendation

We recommend you reaffirm your initial determination to hold funding at the 1975 level and seek appropriation language that would overcome the mandatory spending requirement of the authorizing legislation.

1976 Budget

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
($ in millions)

Program		1975 Presidential Decision	1976 Initial Presidential Decision	1976 HEW Appeal	1976 OMB Recom.
Vocational Education Legislative Structure					
Formula Grants	BA	495	373*	495*	373*
Project Grants	BA	35	160	38	160
Total		530	533	533	533

* Includes permanent appropriation.

Initial Presidential Decisions

Your initial decision provided $530 million for Vocational Education programs. HEW is not appealing this level. However, your decision did not address the proposed structure for Vocational Education programs.

The original OMB allowance provided operational support for Vocational Education programs at a lower level than in 1975 and allowed HEW to increase its capacity building efforts in the innovative projects area. The Federal role would be moved to one of limited grants (3 years) for research, innovation and dissemination and away from financing a portion of service delivery. The allowance for the operational support Basic Grant program provided a 60/40 State Federal matching requirement and decreased the Federal share to zero by 1980. A 50/50 match would be required for innovative grants -- down from 80 to 90%.

HEW Appeal

-- "This issue concerns the distribution of funds for vocational education in the context of proposed legislation.

-- Administration policy has been to seek consolidation of vocational education programs. To that end, the Department has developed a bill that has considerable support from the vocational education lobby and interested Congressional staff. To drastically shift funding away from the consolidation approach is in direct contrast to our previous position.

-- The OMB distribution would shift the primary emphasis in vocational education away from formula grants administered by the States to project grants.

-- One effect of the OMB allowance is to move more control of vocational education funds to the Federal Government and away from the States, changing the historic Federal-State relationship in this area.

-- For this reason, the OMB proposal can be expected to create resistance on the part of the States, the vocational education lobby, and supporters in the Congress.

-- This change in the Federal role is an obvious move away from the New Federalism in which States have been given greater authority over the use of Federal funds.

-- Bills have already been introduced on the Hill similar to HEW's draft legislation which have widespread support among the vocational education community. These bills incorporate HEW's proposed structure and distribution of funds for vocational education programs.

-- HEW's bill was developed in a lengthy process involving discussion with the interest groups and appropriate Hill staff. To change suddenly the structure, content, and concept of the bill when it is submitted to the Hill in January will severely damage our credibility and capacity to accomplish any negotiations with the Hill and outside groups. It will be difficult enough to persuade the Congress to accept consolidation without the funding increase originally requested."

OMB Recommendation

We recommend no change from the structure provided for in the allowance. It recognizes that the primary responsibility for vocational education rests with the States, not the Federal government. Further, we do not understand HEW's contention that an Administration approach has been set and that the allowance would shift from that position. There has been no review or clearance by the White House or Executive Office staff of the HEW proposed new legislation.

While the allowance would increase funds in the innovative area by fourfold the greatest change is in emphasis. Programs proposed for inclusion under the innovation category would require innovative or capacity building approaches, problems would be identified, solutions proposed and a limited (3 year) life for the project would be planned at the outset as opposed to continuing general support for State agency operations.

The attached narrative description details the difference in approach between the HEW and OMB recommendation. The OMB approach would provide a greater opportunity to focus the Federal contribution on formative and innovative program areas in vocational education.

Vocational Education Program

HEW Proposal	OMB Recommendation
Consolidate 13 existing categorical programs or earmarking provisions into four areas of support: (1) program planning, (2) vocational education programs and services, (3) programs for individuals with special needs, and (4) special projects for innovation in vocational education.	Revise proposal to provide for the Basic Grants program with a State/Federal match of 60/40 in FY 1976. The set-asides and earmarks would be eliminated.
Give the States broad discretion in determining priorities for program funding. Apply uniform 50/50 matching rate for all programs except innovation, which are 100% Federal. Hold harmless at current levels the set-asides for the disadvantaged and handicapped.	Consolidate the handicapped set-aside ($42 million in FY 1975), grants for special needs ($79 million in FY 1975), and research ($38 million in FY 1975) into an Innovative Projects activity to increase the capacity-building role. Institute a 50/50 State/Federal match. Grants for Innovative Projects would be limited to 3 years.
Authorize $603 million each year for 1976-1980 and $160 million for the 1976-77 transition period.	Authorizations to be consistent with FY 1976 budget decisions.

HEW Personnel *

	Actual 1974	1975	1976
Initial Presidential Decision	--	46,690	46,815
HEW Appeal (increase)	--	+558	+1,518
OMB Recommendation	46,658	47,000 (+310)	47,500 (+685)

Although Secretary Weinberger's appeal memorandum does not address personnel, we are informally advised that he proposes the increases shown, excluding Social Security, which is covered in a separate decision memorandum. We recommend the compromise position indicated above.

	1975	1976
* Excludes:		
St. Elizabeths Hospital	3,911	3,911
Office of the Secretary	5,366	5,890
Social Security Administration	70,871	70,871
	80,148	80,672

THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE.
WASHINGTON, D. C. 20201

DEC 11 1974

MEMORANDUM FOR THE PRESIDENT:

SUBJECT: Fiscal Year 1976 Budget Allowance

I have received from OMB staff the 1976 budget allowance for the Department. This allowance would provide the Department with 1976 outlays of $120.1 billion. I am asking you to restore $824 million in outlays and $1.1 billion in budget authority. This would be almost completely offset by $700 million in savings if you agree to propose an 8 percent limit on the cost-of-living increase for Social Security and SSI program benefits, as I mentioned to you at our meeting today on Social Security. If you were to propose a limit of 7.5 percent, the $1 billion saving would more than offset these requested restorations.

I strongly support your effort to maintain fiscal constraint in the Government's budget. When we submitted our budget on September 30, it was below the OMB outlay planning ceiling. Even with the restorations we are seeking (and even without the offset mentioned above), the Department's 1976 request has about the same impact on the 1976 budget deficit as contemplated in the OMB ceiling because inflation will bring us an extra $2.5 billion in revenues for the Social Security trust funds. In any event, we believe that the additional $824 million in outlays we are requesting will not significantly compromise your fiscal policy objectives if our proposed offset is adopted.

There are certain themes in the allowance which I believe move the Department's programs in the wrong direction and would convey a damaging message to Congress and the public.

— Several proposed budget cuts, principally in health and social services programs, will hit the poor and disadvantaged disproportionately. You and I have stated publicly that the poor should not be required to do more than their fair share in the fight against inflation. This commitment should not be abandoned.

— Several of the reductions appear to be based on the assumption that States and localities can pay a larger share of program costs. Our latest forecast of State and local fiscal capacity indicates that the recent surpluses have been rapidly eroded by economic conditions. Decisions already made in the 1976 budget revision shift substantial costs to State and local governments. Therefore, proposals to increase cost sharing are more than likely to result in Congressional inaction at best.

— The allowance for the Department's education programs suggests that the move toward the new Federalism has been reversed. Program consolidation can only be started under HR-69, if we meet a defined level of funding which the proposed budget would not reach. Also, funds would be shifted from broad formula grants to States and localities to project grants managed by Washington.

— Two decisions—the proposal to ask for less than minimum funding to trigger one part of education consolidation and a decrease in Federal matching for social services—would destroy painstakingly developed compromises with Congress. These actions would be interpreted as bad faith, and Administration abandonment of prior commitments, and would make effective negotiation with the Congress less possible in the future.

-- The proposed budget would hold the Department's controllable health programs to the 1975 reduced level which is well below the 1975 appropriation bill signed this week. It is not only the markedly reduced program level that concerns us, but the many specific line item reductions that are proposed--more than 30 out of some 60 that make up our detailed estimates. This approach can be perceived by key members of our health agencies as a diminution of their judgement and responsibilities in professional areas. For that reason, we strongly urge that we have much greater flexibility in using the funds allocated to us.

When we meet to discuss the 1976 allowance for HEW, I would like to discuss restorations in the following areas:

Social Services (+$621 million in budget authority and outlays)

The allowance assumes that we will seek legislation to reduce Federal matching for social services under Public Assistance from 75 percent to 65 percent in 1976 and to 50 percent in 1977. Moreover, the dollar allowance is based on the assumption that States will spend no more than they now do on social services programs. This would result in a 25 percent reduction in combined Federal and State spending on social services in 1976. While it can be agreed that the current program is not as effective as it should be, a reduction of this magnitude is bound to have a severe impact on the poor.

We have fought hard for legislation reforming the social services program, and such a bill recently passed the House with Administration backing. If this bill is not passed at this session of Congress, all of our prior negotiations will be down the drain if we attempt to cut Federal matching next year. If it does pass, and an amendment is submitted next year, we will be accused of acting in bad faith and the proposal will very likely be ignored. Thus, I strongly recommend that you reconsider the decision to submit legislation reducing Federal matching for social services.

Furthermore, as you know, there is a $2.5 billion ceiling on social services which simply means that if the States offer qualified services programs, they can draw the full amount. Therefore, all of our social services figures are estimates at best, and the full $2.5 billion may be required in any event. By the same token, we could arbitrarily lower our estimates

of the total program level, as OMB has done and thus we would not need to add the full $621 million in outlays.

Health Services for the Poor and Disadvantaged (+$189 million in BA, $83 million outlays)

The allowance assumes that we will seek legislation to increase State and local matching for the Department's special health service programs, including Neighborhood Health Centers, Maternal and Child Health, Migrant Health, Family Planning, Alcoholism and Drug Abuse. In my view, this is not a feasible proposal and would result in an arbitrary reduction of services to people not now properly served by the Nation's health service delivery system. I believe that these programs should be held in place until Comprehensive Health Insurance is enacted and implemented. We have consistently maintained that insurance was a necessary and effective substitute for these programs, not that they were ineffective or unnecessary in themselves.

Improving the Health Care System (+82 million BA, $47 million outlays)

The allowance would cut back the Department's efforts to change the health delivery system to make it more responsive to National needs. I am particularly concerned that the National Health Service Corps be permitted to attract more health workers to rural areas, that a reasonable base be established for health services research, that the initial effort to encourage the development of HMO's not be stopped before it really gets started, and that efforts to improve health statistics move forward. Better data will assist our development of a comprehensive health insurance program and the improvement of existing health delivery systems.

Preventive Health (+$17 million BA, $11 million outlays)

The allowance would halt the expansion of the Food and Drug Administration's consumer protection programs and reduce the Department's efforts to control venereal and other communicable diseases by 20 percent below current levels. We have made significant progress in these areas in recent years and we do not believe that this progress should be halted or reversed in 1976.

Health Research (+$12 million BA, $9 million outlays)

The allowance for health research would hold all efforts outside the Cancer Institute to the exact dollar level of the 1975 revised estimate. This is an implicit 10 to 15 percent reduction in program output. Because we believe that other health programs have a higher priority than research this year, we do not appeal this general result. However, we would like an additional $12 million to carry out the new research mandated by legislation in areas such as aging, diabetes, and sudden infant death.

Education Grants to States (+$109 million budget authority, $13 million in outlays)

I'm asking you to restore proposed budget reductions in the education support services grant consolidation (+$40 million), formula grants for the education of the handicapped (+$25 million), and State student incentive grants (+$44 million). The present allowance for grants consolidation is below the amount needed to trigger consolidation and would require a legislative amendment to HR-69, which stands no chance of being accepted.

The allowance for the handicapped would reduce current formula funding by 50 percent. The allowance for State student incentive grants would terminate a program which provides incentives to States to supplement Federal funds for student aid, the very direction which I believe we need to go in order to improve our student aid strategy. While I am not appealing the $530 million allowance for vocational education, I am afraid that we have little chance to achieve consolidation within that budget level, because we would need new legislation.

Vocational Rehabilitation Grants (+$40 million budget authority, $32 million outlays)

The allowance holds grants to States for vocational rehabilitation services to the 1975 level of $680 million. We believe that the full authorization of $720 million should be funded in 1976 because of the requirements of the 1973 act to increase services to the more severely disabled. Even at $720 million, the total number served in this program will decline due to this new requirement and inflation.

Secretary

1976 Budget

Department of Health, Education, and Welfare
and
Special Action Office for Drug Abuse Prevention
($ in millions)

		1974 Actual	1975 Presidential Level	Initial Presidential Decision	HEW Appeal	SAO Recom.	OMB Recom.
National Institute on Drug Abuse (NIDA)	BA	243	211**	211	222	306	213
	O	156	226	226	229	260	227
Special Action Office for Drug Abuse Prevention	BA	51*	13	--	--	10	--
	O	21	45	9	9	14	9
Total	BA	294	224	211	222	316	213
	O	177	271	235	238	274	236

* $24 million lapsed
** $17 million of 1974 funds used in 1975

This paper addresses two issues: (1) the 1976 funding level for NIDA in HEW and (2) an extension of the Special Action Office for Drug Abuse Prevention beyond its statutory, June 30, 1975, termination date. Attachment A identifies the budget details of the issues.

Initial Presidential Decisions

1976 NIDA Funding. Your initial decision on a 1976 funding level for NIDA was to hold it to the 1975 level. This decision reflected a policy of:

-- Federal funding of 95,000 treatment slots at an average Federal share of 70% compared to an average of 80% in 1974;

-- continuing the slot funding priority -- adopted in 1971 -- heroin addicts;

-- limiting demonstration and prevention to current projects and terminating non-reimbursable, short-term contract training of counselors and other paraprofessionals; and

-- allowing $3 million (which represents roughly 10% of the annual NIDA research budget) for new research.

These policies reflect as an appropriate Federal role the supplementing of State, local, and private funding for treatment, but require State, local and private sources to pick up a greater share of the federally-assisted treatment capacity costs.

Currently, the Federal Government finances about half of the national treatment capacity. Your initial decision also recognizes that only 2/3 of the federally-funded slots are filled by the primary target group -- heroin addicts.

Special Action Office Extension. We have not previously raised with you the issue of extending the Special Action Office because we understood there was agreement on terminating it in June as originally mandated by Congress. Dr. DuPont, Director of the Special Action Office, who, in October, proposed its termination on schedule, submitted a new budget request on December 11, 1974, proposing a four-year extension of the Office.

Special Action Office Appeal

NIDA Funding. Dr. DuPont -- who is also the Director of NIDA -- appeals both your initial decision and Secretary Weinberger's appeal level. He believes that your initial decision "seriously impairs drug abuse prevention functions" in HEW, particularly in light of recent evidence which he believes indicates that the heroin problem is again worsening. He believes that the Administration should seek an additional $50 million to support 21,000 additional slots, for a total of 116,000 slots and that $ 9 million more should be available for new drug abuse research.

Dr. DuPont also believes that the Federal Government should take on a greater responsibility in the areas of treatment for marihuana, stimulants and depressants (polydrugs) and should mount larger training, public education, prevention, rehabilitation activities and grants to States.

HEW Appeal

Secretary Weinberger has reviewed Dr. DuPont's request for an additional $95 million for NIDA above your initial determination of $211 million. The Secretary appeals for an add-back of only $11 million.

Special Action Office Extension. Dr. DuPont believes that the Office has made a considerable contribution to the government's drug abuse prevention effort since its creation in 1972, and that

its legislatively scheduled termination on June 30, 1975, would severely damage the Administration's capability to effectively coordinate the Federal drug abuse prevention effort. Further, he is concerned that termination would signal a lowering of national priority at a time when the drug abuse problem appears to be increasing again. He proposes a four-year extension of the Special Action Office within the Executive Office of the President.

OMB Recommendation

NIDA Funding. We recommend that you reaffirm your initial decision on the NIDA funding level, with the exception of a $2 million increase to allow for follow-on costs in NIDA for transferred Special Action Office programs.

Our recommendation reflects the fact that only 2/3 of all patients in HEW-supported treatment programs are heroin abusers. Moreover, NIDA treatment slot demand projections (see the graph at Attachment B) supplied by the Special Action Office indicate that of the 116,000 slots it requests, only 80,000 would be filled with heroin abusers; slots for this primary target group could be financed within the 95,000 level. Further, in addition to the HEW funded slots, there are approximately 125,000 State and local slots of which only 75% were filled at the end of 1974. Thus, overall capacity appears adequate. The higher level of funding for non-heroin abusers and non-treatment activities proposed by Dr. DuPont would be a departure from previous priorities and the concept of a limited, targeted Federal role. Expansion of lower priority drug abuse activities duplicates ongoing programs elsewhere in HEW and in other agencies, e.g., research, education, and training.

Special Action Office Extension. We recommend against extension of the Special Action Office.

The Office was created to oversee and coordinate the rapid increase in the Federal support for drug treatment capacity; it did that job reasonably well. Treatment capacity is, however, stabilizing. Moreover, virtually all civilian drug abuse programs are located in HEW and the major substantive policy decisions concerning drug abuse treatment have already been made.

We recognize the possible need -- for political reasons, as well as to handle whatever coordination functions remain -- to continue visible White House leadership of the drug abuse prevention program. There are three ways to meet this political need, in descending order of visibility: (1) a Special Assistant (or Advisor) to the President for Drug Abuse Prevention; (2) an Executive Director of a Domestic Council Committee on Drug Abuse; or (3) a Special Assistant for Drug Abuse Prevention to the Secretary of HEW.

Decision:

NIDA Funding

Approve Dr. DuPont's Appeal _____ ($306 million)

Approve HEW Appeal ___✓___ ($222 million)

Approve OMB Recommendation _____ ($213 million)

Special Action Office Extension

Approve Dr. DuPont's Recommendation _____
(extending the separate Office for 4 years, requiring $10 million annually)

Approve Alternative Options:

(a) Special Assistant to the President _____

(b) Executive Director of Domestic Council Committee _____

(c) Special Assistant to the Secretary of HEW _____

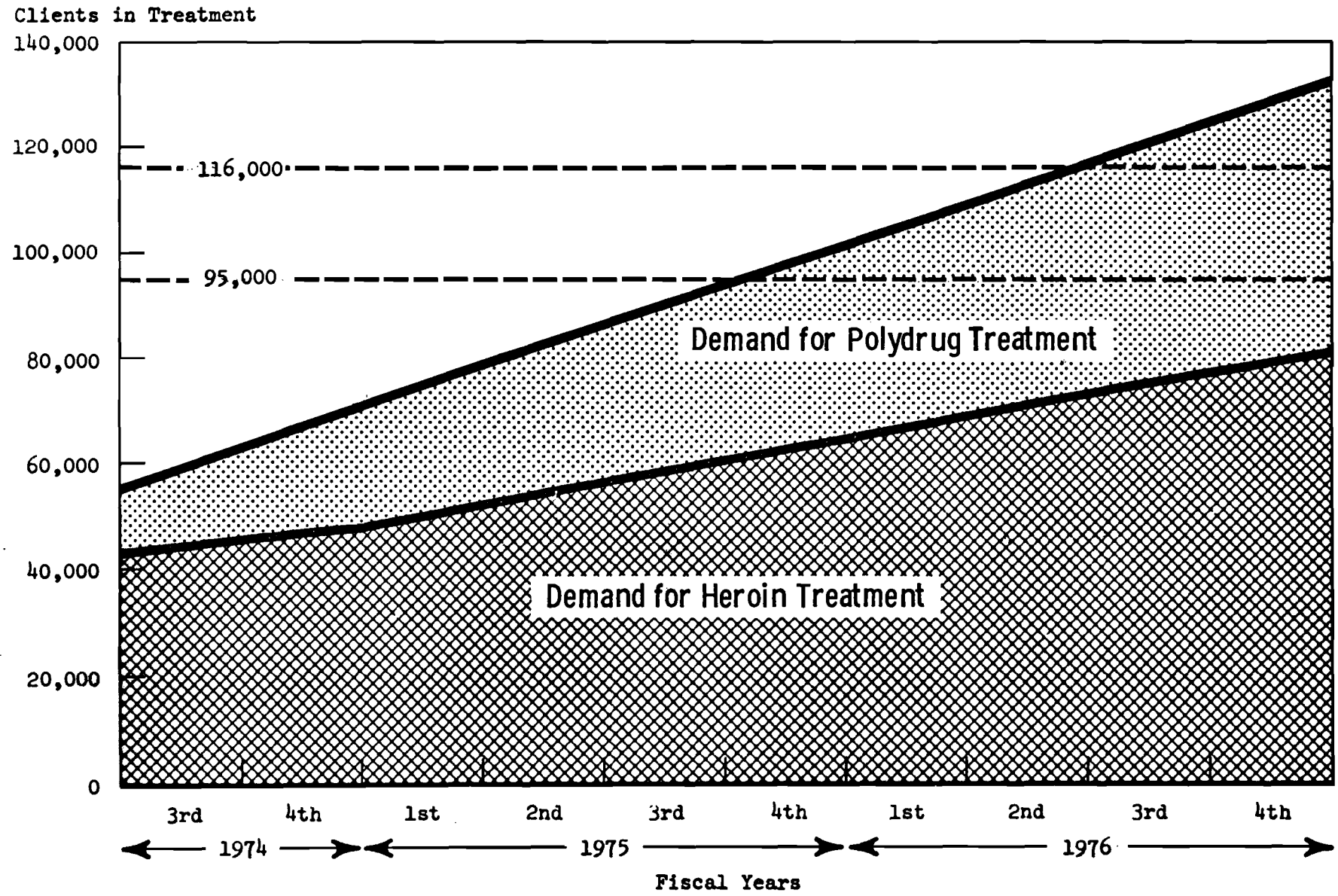
1976 . .get

Department of Health, Education, and Welfare
and
Special Action Office for Drug Abuse Prevention
($ in millions)

	1974 Actual	1975 Presidential Level	1976 Initial Presidential Decision	1976 HEW Appeal	1976 SAO Recom.	1976 OMB Recom.
National Institute on Drug Abuse						
Research	37	32	32	32	41	32
Training	15	10	3	3	7	3
Community Projects:	(152)	(115)**	(124)	(135)	(194)	(126)
Treatment	133	99 **	114	115	165	114
Demonstration	16	13	8	16	20	9
Education and Prevention	4	3	2	4	10	3
Grants to States	15	35	35	35	45	35
Management and Information	25	19	17	17	19	17
Subtotal, NIDA	243	211	211	222	306	213
Special Action Office for Drug Abuse Prevention						
Salaries and Expenses	5	3	--	--	3	--
Projects	46*	10	--	--	7	--
Subtotal, SAO	51*	13	--	--	10	--
Total	294	224	211	222	316	213

*$24 million lapsed
**$17 million of 1974 funds used in 1975

SAO ESTIMATED DEMAND FOR NIDA/SAO DRUG ABUSE TREATMENT SLOTS



1976 Budget

CONSUMER PRODUCT SAFETY COMMISSION
($ in millions)

	1974 Actual	1975 Presidential Decision	1976 Allowance	1976 CPSC Appeal	1976 OMB Recom.
BA/Obl.	28.8	35.0	35.6	49.2	35.6
0	18.7	29.7	35.1	41.4	36.1
Employment Ceiling	780	890	863	1,119	863

Allowance

The allowance maintains CPSC at its 1975 Presidential request level of $35 million plus an additional $600,000 for mandatory cost increases. The allowance reflects CPSC's inability to:

- specify how its past or future activities will reduce consumer product injuries, or
- utilize fully and effectively its past funding. CPSC has spent excessively on office furnishings and computer services, for example, and let lapse 18% of its 1974 budget authority.

CPSC Appeal

Chairman Simpson's attached appeal--which has also been sent to eighteen Senators and Congressmen--protests that the allowance would "deal a devastating blow to CPSC and the cause of consumer health and safety." The same level in 1976 as in 1975 would "indicate to this Commission, to the Congress, and ultimately to the American people, at best, a crippling and, at worst, a virtual abandonment of this urgent and critical task."

Chairman Simpson maintains that "public criticism could be leveled not only at the Commission for its lack of regulatory performance but also at the Administration for apparent withdrawal of budget support needed to reduce public suffering and economic loss from unsafe products." Chairman Simpson closes his appeal:

"In light of the apparent continuation of what I perceive to be an unexplainable discrimination against the Consumer Product Safety Commission--and more importantly, against consumers who are the ultimate victims of unsafe products--I respectfully request that you reject OMB's budget recommendations and I request a personal meeting with you to discuss the future of this Commission."

OMB Recommendation

We recommend reaffirming the allowance of $35.6 million for 1976. The 1976 and 1975 levels represent a 24% increase over CPSC's actual 1974 program level. In 1976, all mandatory cost increases would be allowed in order to maintain the 1975 program level. None of the "program reductions" referred to in Chairman Simpson's letter would, in fact, be required. Chairman Simpson's appeal letter--much like the initial 1976 request and the CPSC staff justification for that request--does not specify what ways CPSC's requested funding level would impact on consumer safety or what deleterious effects would result from continuing the 1975 program and funding levels in 1976.

U.S. CONSUMER PRODUCT SAFETY COMMISSION

WASHINGTON, D.C. 20207

December 11, 1974

The President
The White House
Washington, D. C. 20500

Dear Mr. President:

I am both stunned and dismayed at the 1976 budget allowance conveyed to me by your Office of Management and Budget. I was informed yesterday that OMB will recommend to you a budget level of $35.6 million and 862 positions. That level will deal a devastating blow to the Consumer Product Safety Commission and the cause of consumer health and safety.

As Chairman of the sole Governmental agency responsible for protecting the American consumer from the unreasonable risk of injury associated with over 10,000 consumer products, I must inform you that a budget of $35.6 million would indicate to this Commission, to the Congress, and ultimately to the American people, at best, a crippling and, at worst, a virtual abandonment of this urgent and critical task.

My 1976 budget request of $49.8 million and 1,104 positions represents a fiscally responsible, independent judgment based upon an exhaustive and thorough analysis of the total resource requirements necessary to carry out the Congressionally mandated mission of this Commission. The action of the OMB in proposing an approximate one-third overall reduction in product safety programs, ignores that judgment and the mission which we are tasked to perform.

It seems inconsistent to me that President Nixon and the Office of Management and Budget concurred in the 1975 appropriation request of $42.8 million for this Commission, and that now we are faced with the recommended level of $35.6 million for 1976 from the same staff at OMB which approved the higher 1975 level.

This reduction has come even in the face of dramatic inflationary forces, pay increases and annualization costs associated with the establishment of a new regulatory Commission.

Upon the founding of this Commission, OMB, not the Commission, both formulated and approved a 1974 budget level of $30.9 million. This amount was supplemented by an additional $3.8 million transferred by OMB from impounded Food and Drug Administration funds. Thus the proposed 1976 budget authority of $35.6 million--in terms of constant dollars--represents a significant absolute program and budget reduction from even that first year appropriation.

This Commission has made significant progress in establishing a balanced and integrated organization to protect the American consumer. I must point out, however, that each year there are still over 20,000,000 American men, women and, most tragically, children who are suddenly and without warning injured, disabled and killed by consumer products. The annual cost of such accidents was estimated at $5.5 billion in medical care, disability payments and lost productivity. A budget reduction of the magnitude proposed would not only substantially diminish any effort to address this national tragedy but would force the Commission to consider abandoning needed development of new mandatory product safety regulations in favor of a program restricted to the enforcement of existing standards and reaction to emergencies that arise in the form of imminently hazardous products that have already found their way into consumers' hands.

I clearly recognize your determination to control Federal expenditures as a means of combatting inflation, and I assure you that I wholeheartedly support that effort. Fiscal restraint always has been, and always will be, a prominent concern in all of my actions. However, it would be imprudent to reduce this program to save meager dollars which could accomplish considerably leveraged reductions in the costs associated with injuries to consumers.

I am sure you recognize that every dollar cut from this agency's responsible estimate of the funds required to achieve a level of organizational integrity only delays the attack on a consumer safety problem that is not only real but sizeable.

Further, a failure to appropriate the resources necessary to provide needed injury information, needed technical skills for understanding of the safety problems, and economic analyses capability to determine the most appropriate regulatory action

in response to a product hazard could predictably result in "regulatory over-kill." A regulatory Commission charged with enormous responsibilities and mandated authority, but not afforded the resources to properly carry out those tasks has two choices:

(a) abandon a major portion of its mandated mission;

(b) attempt to meet the problems with the concomitant possibility of imposing regulatory solutions based on incomplete data.

In principle, I would renounce both of those alternatives. However, in all practicality, I could foresee the Commission forced into a pattern of regulatory operations incorporating both.

I feel compelled to point out that public criticism could be leveled not only at the Commission for its lack of regulatory performance but also at the Administration for apparent withdrawal of budget support needed to reduce public suffering and economic loss from unsafe products.

In the 1975 budget message to the Congress, President Nixon said, "To enable the Federal Government to meet emerging challenges more effectively, several new organizations have been created during my Administration,...." One of the organizations identified by the President was the Consumer Product Safety Commission.

In view of this, I view the reduction imposed by OMB to be arbitrary and illogical, having been determined without cognizance of mission and programs and without regard to meeting the "emerging challenges" referred to by the President.

I subscribe to the words of Theodore Roosevelt: "The object of government is the welfare of the people." In this particular instance I believe the welfare of the American people is best served by providing the minimal resources requested by the Consumer Product Safety Commission to fulfill its mission.

In light of the apparent continuation of what I perceive to be an unexplainable discrimination against the Consumer Product Safety Commission--and more importantly, against consumers who are

the ultimate victims of unsafe products--I respectfully request that you reject OMB's budget recommendations and I request a personal meeting with you to discuss the future of this Commission.

Respectfully,

Richard O. Simpson

Richard O. Simpson
Chairman

CC:
Honorable James O. Eastland
Honorable James L. McClellan
Honorable Milton R. Young
Honorable Gale W. McGee
Honorable Hiram L. Fong
Honorable Warren G. Magnuson
Honorable Norris Cotton
Honorable Frank E. Moss
Honorable Marlow W. Cook
Honorable Carl Albert
Honorable George H. Mahon
Honorable Elford A. Cederberg
Honorable Jamie L. Whitten
Honorable Mark Andrews
Honorable Harley O. Staggers
Honorable Samuel L. Devine
Honorable John E. Moss
Honorable James T. Broyhill

FEDERAL MEDIATION AND CONCILIATION SERVICE (FMCS)

New authority requires the Service to mediate disputes in the private health care industry and to convene fact-finding boards of inquiry. OMB recommended against a FY 1975 Supplemental and FY 76 increases for mediation on the grounds that present resources could be reprogrammed to meet the new mandatory requirements. The OMB allowance provided for additional funds to be appropriated in FY 1976 as a contingency solely for the boards of inquiry.

FMCS believes that the proposed program level will result in the agency handling the health care cases at the expense of other crucial mediation cases, and that curtailment of such services would further aggravate the economic stability of the Nation.

OMB recommends handling the mandatory health care cases by curtailing discretionary work in the area of intrastate cases, disputes involving small numbers of workers, and technical assistance in labor-management relations. Much of this work could be handled by State mediation agencies and the Department of Labor(technical services).

	Budget authority (in thousands of dollars)	Outlays	Full-time permanent employment
1974 actual.....	11,895	11,783	444
1975 agency request.....	18,500	17,794	622
1975 OMB recommendation.....	15,945	15,737	499
1976 agency request.....	23,340	22,540	675
1976 OMB recommendation.....	16,950	16,356	499
Effect of OMB recommendation on agency request.....	-6,390	-6,184	---
Transition period.....	4,377	3,630	499
1977 estimate.....	16,950	16,950	499

575

FEDERAL MEDIATION AND CONCILIATION SERVICE
UNITED STATES GOVERNMENT
WASHINGTON, D.C. 20427

December 13, 1974

OFFICE OF THE DIRECTOR

Mr. Paul H. O'Neill
Associate Director for Human
and Community Affairs
Office of Management and Budget
Room 260, Executive Office Building
Washington, D. C. 20503

Dear Mr. O'Neill:

The Federal Mediation and Conciliation Service was advised verbally on December 11 that the fiscal year 1975 Supplemental Budget request, in support of the health care legislation authorized by the Congress under Public Law 93-360, effective August 25, 1974, has been disallowed by OMB and that any additional positions and funds required to carry out the mandatory mediation efforts under this law should be reprogrammed within the existing appropriation available for fiscal year 1975.

Of equal significance is the constraint imposed by OMB on the fiscal year 1976 Budget request. The allowance proposed would provide funding of Health Care Boards of Inquiry only, and restrict our mediation program to the current fiscal year level. This action will force our agency to further reduce essential mediation assistance to other private and public segments of the labor-management community in order to provide such service to the health care industry. For us to provide service to one segment of the economy at the expense of others would have an extremely deleterious effect on our ability to further labor-management relations in the interest of industrial peace.

It is therefore critical that the decision of the OMB to disallow the fiscal year 1975 Supplemental request and to severely reduce the fiscal year 1976 estimate be reconsidered.

The elimination of the fiscal year 1975 Supplemental Budget request will curtail vital mediation services to all parts of the private and public sectors of the economy in every state. Furthermore, the fiscal year 1975 Budget,

as presented to the Congress, did not contemplate use of personnel and funds for the new health care legislation. However, with the passage of this legislation it became mandatory for the Service to provide mediation to each health care case. This is draining our manpower resources considerably beyond our capability and is forcing us into deficiency spending during the current year.

The private health care industry embraces more than 4,000 hospitals, some 18,000 nursing homes, and 2,000 other health care institutions. Combined, they employ some 2.3 million workers. Union activity among these workers is accelerating at a truly hectic pace. Public Law 93-360, for the first time since passage of the Railway Labor Act in 1926, makes mediation mandatory in this major segment of the Nation's private economy.

The size and diversity of the health care industry, combined with the fact that FMCS mediators must respond to all contract negotiation impasses, give the Service no alternative but to seek substantial assistance to meet its new statutory obligation.

The Service conservatively estimated that at least 750 mandatory health care mediation cases would be handled in the 10 months of fiscal year 1975. That this projection was low is borne out by the fact that our health care caseload for the first three-month period stood at 417. These cases, of course, are in addition to the regular dispute mediation caseload of 8,809 cases closed in the past five months--an 18.7 percent increase over the same period of fiscal year 1974. Because of the action deadlines specified in Public Law 93-360 the mediator, once involved in a health care case, is obligated to devote full time, and considerably more travel, to that case. This factor, coupled with the geographic dispersion of health care institutions, caused the Service to request additional resources to provide the minimum essential mediation and technical assistance to labor and management.

If the Service must absorb the workload for the health care industry within its present resources in fiscal year 1975, we will be forced to begin curtailing essential mediation services to labor and management in other sectors of the economy. It is estimated that the Service would not be able to adequately handle some 3,000 labor-management disputes during the balance of fiscal year 1975 within the present manpower resources. It is my firm belief that curtailment of such services would further aggravate the economic stability of the Nation.

Of equal significance are the contraints imposed by OMB on our fiscal year 1976 Budget request. The allowance proposed will restrict our agency to the current fiscal year budget level, and provides no accommodation for the increased activity in the health care industry, where we expect to be involved in at least 1,000 active cases in fiscal year 1976. Since no funds have been appropriated for fiscal year 1975 to service health care cases under the new legislation, this action will place us in an impossible situation. As a result, we see no way in which this agency can handle health care cases except at the expense of other crucial mediation cases.

For the reasons stated above and the multitude of reasons previously provided to your staff, it is imperative that reconsideration be given to a supplemental appropriation for fiscal year 1975 for the additional 123 positions and $2,550,000, and that the fiscal year 1976 budget level include a total of 675 positions and funds in the amount of $23,340,000. Because of the emergency nature of this request, it is critical that favorable action be taken to restore these estimates to the levels requested.

Sincerely,

W. J. Usery, Jr.

W. J. Usery, Jr.
National Director

NATIONAL CAPITAL PLANNING COMMISSION

Comments

OMB recommendation would hold program to FY '75 level.
Agency will not appeal.

	Budget authority (in thousands	Outlays of dollars)	Full-time permanent employment
1974 actual.....	1,559	1,486	64
1975 current estimate...	1,777	1,842	64
1976 agency request.....	2,145	2,145	64
1976 OMB recommendation.	1,895	1,895	64
Effect of OMB recommendation on agency request.....	-250	-250	---
Transition period.....	424	424	64
1977 estimate.....	1,895	1,895	64

National Foundation on the
Arts and the Humanities
($ in thousands)

190

	1974	1975			1976			
	Actual	Budg. Req.	Approp. Level	Pres. Decision	Agc. Req.	OMB Allow.	Agency Appeal	OMB Recom.
BA	131	195	173	173	297	185	~~200~~	185
BO	96	164	164	156	239	175	196	175

Background

The Foundation, in its FY 1976 submission, requested $296.8 million, an increase of $123.8 million above the FY 1975 appropriation amount of $173 million. This represents an increase in FY 1976 funding of more than 70% above that of FY 1975. The FY 1976 request also represents full funding of the Foundation's authorized level. The Foundation was notified last February that its planning level for 1976 was $185 million.

Since FY 1970, the Foundation's request levels have increased by a factor of nearly 10, from $20 million in FY 1970 to $195 million requested in FY 1975.

The nearly 50% increase requested in the 1975 Budget was based, in large part, on the desire to allow the Foundation to provide major support for the Bicentennial celebration.

The Foundation sees past growth as a logical premise upon which to build to an even greater Federal role in these areas. The Foundation's long range projections bear this out:

Foundation's Long Range Projections
($ in millions)

	1970	1971	1972	1973	1974	1975	1976	TR QTR	1977	1978	1979	1980
BA	20	37	69	89	131	173	297	106	399	470	563	678
BO	15	29	44	67	96	156	239	56	369	439	513	618

Issues

There are only two basic issues to be resolved in your decisions on this agency's budget.

The agency position and the OMB recommendation on each issue are set out below together with the strongest arguments for each. We have attached a more exhaustive OMB analysis at Tab A and the Foundation's appeal letter at Tab B.

Issue No. 1: Should we continue, in the FY 1976 Budget, the very large growth rates in Federal support of recent years?

Agency Appeal: In response to the OMB allowance, the agency has reduced their initial 1976 Budget request of $297 million by $97 million to a level of $200 million in their appeal. This figure is still $27 million above the FY 1975 amount and $15 million above the OMB allowance. They maintain:

"OMB is recommending $185 million. This amount is almost exactly equal to the Foundation's current operating level. Since in fact we are in a growth industry, so to speak, this would mean a distinctly backward programmatic step.

At the very minimum we urge you to consider recommending $200 million for the 200th anniversary year of the Nation. This would give people a figure that not only sounds good, it is good, it is a Bicentennial goal in which you could take pride and make an impact. The figure happens to be about the amount ($195 million) the agencies requested from Congress in Fiscal 1975. It represents only a 15.6% increase over the current year Budget Authority; and $15 million would be in private money. It is $100 million below the authorized ceiling for 1976; indeed, $27 million below the 1975 authorized ceiling."

OMB Recommendation: Approve an FY 1976 budget request of $185 million in Budget Authority because:

-- This level provides a 7% increase (+$12 million) above the 1975 appropriation in a year when many social and economic assistance programs are being held constant or reduced.

-- This substantial increase indicates continued emphasis on the Foundation's unique role in the Bicentennial and continued Administration support for the arts and humanities.

-- Continuing to increase Federal support at the rapid rate of the past few years would threaten to make the Federal government the funding source of first resort -- especially in a time when foundations and State and local governments are inclined to reduce their support. The Federal government has become the largest single source of support for the arts and humanities.

-- This is a good time to "take a breather" and to focus and delimit the Federal role. This needed reexamination of the Federal role cannot be done well during a period of very rapid expansion. There is currently no limit to what the Endowments see as the principle Federal role either in terms of: (a) program areas; (b) functions (i.e. production of art and knowledge vs. its widest dissemination or operational and institutional support vs. innovation and stimulation); or, (c) share of total support.

Decision:

Approve agency appeal _____ ($200 million)

Approve OMB recommendation _____ ($185 million)

Issue No. 2: Should the 1976 Budget project a reduction in program/budget levels for fiscal years 1977 through 1980 to recognize completion of the Bicentennial support mission in 1976?

Agency Appeal:

"OMB recommends an out-year budget authority of $145 million for all four years, or a $40 million cut below its recommendation for 1976. It is particularly crucial that you focus on this figure at the present time because you will be required to transmit re-authorization legislation to the Hill in April. Whatever figure is in the budget, will be in your re-authorization request. The OMB figure means that you would be asking Congress for authorization funding levels at HALF the current authorization level to which you gave your full support and to which your leadership so contributed in the Congress. ($300 million - OMB insert)

OMB's rationale is that since many of the agency's activities are contributing to the Bicentennial, we should drop them forthwith -- i.e. programs like folk arts, crafts, preserving our cultural heritage in our nation's museums, improving federal design, major film series on America's history, etcetera. These agencies view these activities as ongoing, so does the Congress, and until OMB's action, we had thought the Administration did, too! It has been repeatedly emphasized to us by the Congress -- and our advisory councils, that we should in no way alter our policies to accommodate Bicentennial programs having one-time or temporary impact on the Nation. It was made clear to us that we should consider the Bicentennial not as a peak from which Federal support to the arts and humanities would descend, but a step from which it would continue forward to the permanent betterment of our Nation.

At the very minimum, we recommend an out-year figure of $300 million. This is the PRESENT AUTHORIZED CEILING for 1976! This means you would be requesting Congress simply to extend the presently authorized level for four years. Within that ceiling, you could then later determine the appropriation level you wished to request. (If you wish to scale the out-year projection to $300 million by 1980, the four-year figures would be 225, 250, 275, 300.)

While the $300 million is substantially below what is needed, or what in normal times we would urge you to consider, it is at least not a REDUCTION, which would bring criticism from all sides. We cannot think of many who would applaud."

OMB Recommendation: We recommend an FYs 1977-80 Budget Authority estimate of $145 million because:

-- Bicentennially related activities amount to at least $40 million of the 1976 Budget Authority at the $185 million level. There is no Administration commitment to continue to fund these activities at the expanded level after the Bicentennial celebration and their cessation should result in a reduction in the budget estimates.

-- The growth of the Foundation in FY 1974 and FY 1975 was based, in large part, on allowing the Foundation to perform a significant Bicentennial role. While the Foundation maintains that these activities would have been funded regardless as part of their regular program of grants, that is not the OMB understanding of the thinking that resulted in the large growth in budget requests.

-- The issue is more substantial than whether the Bicentennial role was the determining factor in the present high levels. The central issue is the future direction and scope of this agency. The Foundation believes that its mandate is "open-ended." It believes that as its constituency increases that its funding must increase proportionately. If this rationale were to prevail, it would result in funding (by the Foundation's own projection) of nearly $700 million by FY 1980. This would be more than half of the current estimate of all private donations in support of the arts alone.

-- The OMB recommendation would indicate a decision to delimit the Federal role and to control the Foundation's growth and permit stable funding patterns, while continuing to be the largest single source of support for cultural activities in the nation.

Decision:

Approve agency recommendation _____
(Project $300 million for each of the years 1977 through 1980 and seek authorizing legislation at this level.)

Approve OMB recommendation _____
(Project $145 million a year and seek authorizing legislation at this level.)

TAB A

Discussion of Recommendations

The National Foundation on the Arts and the Humanities (NFAH) was established by the Congress in 1965. It is an independent agency that contains two separate Endowments, one for the Arts and another for the Humanities. Each of these Endowments is headed by a Chairman appointed by the President and each is advised by a National Council, also appointed by the President. Administrative support is provided to each Endowment by a shared staff. The principal effort of the Endowments is to provide Federal support for the creation and dissemination of art and humanistic knowledge and activities through grants to practitioners and various institutions.

Foundation Growth

The President's FY 1975 Budget requested $195 million for the Foundation. This represented an increase of some $63 million, an increase of nearly 50% above the FY 1974 level of $132 million. The Congress, in its action on the President's request of $195 million, provided $173 million which represents an increase of more than $40 million above the FY 1974 level, an increase of some 30%.

The Foundation, in its FY 1976 submission, is requesting $296.8 million, an increase of $123.8 million above the FY 1975 appropriation amount of $173 million. This represents an increase in FY 1976 funding of more than 70% above that of FY 1975. The FY 1976 request also represents full funding of the Foundation's authorized level.

Since FY 1970, the Foundation's request levels have increased by a factor of more than 10, from $19 million in FY 1970 to $195 million requested in FY 1975.

Private Support

The Foundation estimates donations of private funds and support through non-Federal sources as follows:

Arts: They conservatively estimate that $1.2 billion was provided in 1973 in private contributions to the Arts. In addition, they estimate $150 million in State and local support.

Humanities: They estimate that a total of $3.4 billion will be provided in private support for humanistic activity. In addition, $1.8 billion will be provided by State and local authorities. (This estimate includes the support of such activities as: universities, libraries, etc.) The Endowment believes this is a comparable figure with their own funding level, since the broad range of activities supported is similar to their own.

The Endowments believe that much of their support evokes matching support by private, State and local agencies. However, they have no definite estimates of the leverage effect.

The Arts Endowment does cite examples such as the increase in State arts agencies' size and numbers as being Federally related. Moreover, they cite new qualitative support for the arts from the U. S. Conference of Mayors. They further cite the overwhelming number of individual contributions that are given to the Endowment. (Some 19,165 out of 19,590 are individual donations totaling $1.9 million).

The Humanities Endowment, while not citing any major specifics, does indicate that they believe non-Federal support is tied to quantum increases in Federal support.

However, in the case of both Endowments there is no evidence which demonstrates a causal relationship between increases in Federal funding and increases in private, State and local

support. There is only an assertion of causality based upon the personal experience and judgments of the Chairmen.

Appropriate Federal Role and Level of Support

The Division believes that it is time to re-examine: (a) the appropriate Federal role; and (b) what is a reasonable level for Federal financing in these fields.

The Foundation, in its initial authorizing legislation (P. L. 89-209), received the following mandate, "... to develop and promote a broadly conceived national policy of support for the humanities and the arts in the United States ..." This directive has resulted in programs which are very diverse in content and in a dual role of the production and dissemination of knowledge and art by both endowments.

Moreover, this mandate has resulted in a sense of "mission" on the part of the Foundation that sees past growth as a logical premise upon which to build to an even greater Federal role in these areas. The Foundation's long range projections bear this out:

Foundation's Long Range Projections
($ in millions)

	1975	1976	TR QTR	1977	1978	1979	1980
Budget Authority	173	297	106	399	470	563	678
Outlays	164	239	56	369	439	513	618

Both Endowments deny that there is a danger that the Federal government will become the dominant patron of the Arts and Humanities since the Federal share is far less than the

total support from private agencies and State and local governments. They state that Foundation money is highly catalytic and results in increased non-Federal support. However, they agree that the Federal share is now the largest single source of support for these areas.

In requesting a statement of the mission and objectives of each Endowment, including the limits or bounds of the Federal role in terms of the relationship of these objectives to State, local and private institutions, the responses of both Endowments brought forward the following themes:

-- Continued growth is a "given" in the minds of both Endowments. The justification for this continued expansion is tied to a general concept of "need." However, in the materials submitted and in conversations with Foundation staff, a definition of "need" has not been developed. In fact there is no limit to what the Chairmen of the Endowments see as the Federal role except the operational capacity limits of the grantees and contractors.

-- The Arts Endowment continues to view itself, even within its expanded role, as a catalyst evoking great amounts of non-Federal funds and remaining a "junior partner" in funding. (However, as noted, the Endowment is the largest, single source of funding in the U. S.).

-- The Humanities Endowment's response is colored with the tone of its being a principal source of support for the Humanities and not placing much emphasis on non-Federal increases. In so doing, the Endowment cites as a possible objective the almost $700 million funding level of the National Science Foundation.

-- Finally, neither Endowment foresees a narrowing of program horizons. Thus, support for such diverse activities as dance touring, tapestry exhibitions, folk art, archeology, chamber music, television dramas, short films, research grants and curriculum development are envisioned and at expanded levels. There is no suggestion towards a selective funding process to eliminate support of certain programs or areas of activity.

-- The Division believes that this ill-defined "need" concept is not useful for a well-reasoned determination of the need and the appropriate Federal role. The need for and role of the Endowments can be usefully analyzed by considering issues such as: production vs dissemination; Bicentennial support; financial management expertise of artistic and cultural institutions; salary structures, etc.

Production vs. Dissemination

In FY 1975 and FY 1976, the Arts Endowment estimates that 22% of its funds will be going to foster the arts and 78% to the dissemination thereof.

This means that in FY 1975, $64.2 million will fund dissemination activities and $18.1 million will be used for production. In FY 1976, the figures are $30.5 million for production and $108.0 million for dissemination.

The Endowment for the Humanities estimates that approximately 82% of their FY 1975 funds will be devoted to dissemination of humanistic knowledge or projects. This amounts to $65.8 million. The remainder, $14.4 million, or 18% of the total, will be devoted to the production of this knowledge or these projects. In their FY 1976 request, approximately 79% will be used for dissemination ($109.4 million) and 21% for production ($29.1 million).

We believe this ratio of approximately 4 to 1 for both Endowments is desirable and reflects adherence to OMB direction. However, we must also point out that the definitions of production and dissemination are imprecise and the "gray area" is a large one.

Bicentennial Program Support

Based on FY 1974 Budget decisions and White House direction, the Foundation has mounted a substantial Bicentennially related program. Here are estimated total funding levels for each Endowment and that portion proposed specifically for Bicentennially-related activities:

($ in millions)

	FY 1974		FY 1975		FY 1976	
	Total 1/	Bicen.	Total 1/	Bicen.	Total 1/	Bicen.
Arts	64.5	13.1	82.3	19.8	138.5	36.0
Humanities	62.5	11.0	80.3	23.0 2/	138.5	32.0

Discussions with the Foundation relating to both the FY 1974 and FY 1975 budget levels indicated the position of the Foundation that "start-up costs" for Bicentennially related activities, of necessity, required funding beginning as early as FY 1974 for the Bicentennial celebration in 1976.

With the "lead time" requirement in mind, funding was provided for the FYs 1974 and 1975. It was envisioned that funding levels would begin to decline thereafter. However, the Foundation now maintains that short-term funding for the Bicentennial is also required due to the lateness in starting the Bicentennial effort.

1/ Includes private donations.
2/ Includes the Endowment's entire State-based program at $13.2 million which they maintain will be entirely Bicentennial.

Budget Perspectives

Each Endowment was requested by OMB staff to indicate those activities which "could not be either undertaken or continued" under the OMB FY 1976 planning amount of $185 million for the entire Foundation. (This figure is in comparison with an FY 1975 request level of $195 million and a Congressional appropriation level of $173 million). It should be noted that the reduction of $10 million in the FY 1976 planning target below the FY 1975 request amount of $195 million was based on the White House/OMB decision in the 1975 Budget process that FY 1975 was to be the peak year for Bicentennial activities and that funding would be reduced thereafter.

The response of both Endowments listed the following programs that would be either discontinued or not undertaken under the revised amount (not in priority order).

Arts:

1. Increased monies in all three categories to account for inflationary factors or necessary growth to bring a program up to an effective level.

2. Substantial strengthening of the basic cultural resources of the country.

3. Increased monies to bring the arts to more people through the State arts agencies via the basic State agency grants, artists-in-schools, dance and theatre touring, residency and sponsor development, special State grants, strengthening community services, professional program development for States and regional organizations, theatre and expansion arts in State agencies.

4. Increased or new funding for creative development and preservation of our heritage, including: enhancement of

America's indigenous arts, museum renovation, architecture preservation, special programming for music, public media and dance for bicentennial purposes and for "City Futures," which is part of the architecture bicentennial program in 1976.

5. Added monies for bicentennial related programs in Expansion Arts, programming in the arts on television, "City Spirit," special music programs, wider availability of museums, cultural facilities design assistance, Special Projects, works of art in public places, arts centers and festivals -- almost all of these programs are bicentennially oriented either directly or because of the time frame in which they occur.

6. Incentive support for professional cultural institutions directly related to increased or totally new sources of support and programmatically directed to broader public participation.

Humanities:

1. Reduce the proposed amount available for the public programs that go to support the State based activities, media programs and museum/historical society grants.

2. Reduce the proposed amount available to fund activities in the area of curriculum reform for higher, elementary and secondary education.

3. Continue the bulk of the fellowship program at the FY 1975 level. There would be a reduction in the area of professional teaching/study fellowships.

4. Provide for no expansion in the research area.

5. Reduce the level provided for other minor programs.

There is no identification in priority ranking of what would be eliminated from their program proposal, if it is held essentially to the currently planned level of support. Rather, they have identified across-the-board decreases. Both Endowments refused to identify a firm list in priority order.

Administrative Support

As noted previously, the Foundation has grown by a factor of more than 10 in its request levels to the Congress. In terms of staffing and support, the increases have been proportionate to the growth. The increase in workload is attributable, in part, to the following causes:

-- Applications: As the Foundation grew, the number of individuals and institutions seeking assistance has grown concommitantly. The following indicates the FY 1974 actual and anticipated FY 1975 and FY 1976 application levels:

	1974 Actual		1975 Est.	1976 Est.
	Applications	Awards	Applications	Applications
Humanities	6,165	1,184	7,500	9,000
Arts	14,167	2,957	19,500	22,000

Each of these applications, regardless of amount or scope, requires review by a panel of experts and staff attention. Naturally the amount and detail of this review will vary according to type of grant. However, each application requires attention.

This volume could only be controlled if the Endowments began to focus their lines of activity and requests to proposals on priority fields.

-- Technical Assistance and Travel: The Endowments, at the direction of their respective Councils, are involved in the concept of technical assistance and directed activities. This necessitates increased amount of administrative support.

-- Moving and Space: At present the Foundation is in three separate buildings. This has necessitated moves that have resulted in renovation costs, moving costs, rent fluctuations, etc.

These, and other factors, have resulted in a Foundation request of some 320 additional full-time permanent positions. (A comparable 320 would also be added to the total amount). This represents an increase of 82% above the FY 1975 full-time permanent ceiling of 387 positions. These increases in personnel are coupled with a $9 million or 86% increase in administrative funding.

Issues

1. Level of funding for the Foundation in FY 1976.

2. Amount of funding, within the budget totals, that will be provided for Bicentennial activities.

3. The nature and type of administrative support.

Issue #1: Level of funding for the Foundation in FY 1976.

Option #1: Provide funding at the FY 1976 planning figure of $185 million. This will provide an increase of $5 million in gifts and matching for the Arts Endowment and $7 million in gifts and matching for the Humanities Endowment and bring them on an equal FY 1976 request level of $87.25 million each, thereby equalizing unequal FY 1975 levels for each Endowment.

Discussion: This amount, which is $10 million below the FY 1975 request of $195 million, is $12 million above the FY 1975 appropriation level of $173 million.

Pro:

-- Provides funding at a level that is currently contained in the FY 1976 budget totals.

-- Provides maximum opportunity for strengthening managerial and administrative functions by precluding large funding growth.

-- Keeps the President's FY 1976 request within a desirable total, while also providing a continuation of a very sizeable level of support.

Con:

-- Raises a question, based on past growth pattern, of a continued Presidential commitment to expansion, given Congressional reductions in FY 1975.

-- Provides an FY 1976 funding request level below that of the original FY 1975 request.

Option #2: Provide funding at the FY 1975 original request level of $195 million.

Pro:

-- Restates a continued Presidential commitment to expansion in this area.

-- Increases funding levels at a time of increases in costs to cultural institutions.

-- Provides a moderate increase for administration that would aid in the administrative consolidation that is necessary.

Con:

-- Brings funding level above that contained in the FY 1976 planning amounts.

-- Provides continued Bicentennial support beyond the "peak" funding year.

Option #3: Allow for a continuation of past growth pattern by providing the requested amount of $296.8 million or the agency "fall-back" amount of $274.1 million.

Pro:

-- Continues present trend of strong support and a steep rate of growth in Administration requests.

-- Provides even more support for Bicentennially related activities.

Con:

-- Indicates no limit to the Federal role in direct support of these fields.

-- Directly contradicts Congressional conservatism on this program.

-- May lead to a Federal role which pre-empts or dominates support of these areas.

-- Certainly increases the possibility of Federal support simply "buying up" what would have received State/local funds, especially in the current retrenchment psychology now prevalent among foundations.

-- Continues a growth rate which threatens the capability to maintain sound administrative and management control.

Division recommendation: Option #1.

Issue #2: Amount of funding, within the budget totals, that will be provided for Bicentennial activities.

Option #1: Limit any increases, above the FY 1975 appropriation amount of $173 million up to the FY 1976 planning amount of $185 million, to Bicentennial activities only.

Pro:

-- Limits the non-Bicentennial program to present levels of support but maintains the Administration's commitment to strong support for the Bicentennial, even through FY 1976 and into FY 1977.

-- Under the severe constraints of the FY 1976 budget, increases for the Bicentennial should take priority in this fiscal year with some portion of the slack available for non-Bicentennial growth as the Bicentennial program phases out.

Con:

-- This would effectively be a policy of no growth for the non-Bicentennial activities of the Foundation for FY 1976 and could be interpreted as a reduction in the Administration's commitment to the field, based on past growth patterns.

Option #2: Provide program and funding increases for both Bicentennial and non-Bicentennial activities in accordance with the present mix.

Pro:

-- Avoids criticism of abandoning the commitment to the basic program and restates a commitment to the Bicentennial.

-- Maintains the Administration's commitment to the Bicentennial but as a share of the Foundation's budget.

Con:

-- Constrains Bicentennial support to only part of the Foundation's increase.

Option #3: Provide funding at the FY 1976 planning figure of $185 million, but the increase of $12 million above the FY 1975 appropriation will be for non-Bicentennial activities only.

Pro:

-- Makes "peak" funding year for the Bicentennial during FY 1975.

-- Restates commitment to growth of the basic program.

Con:

-- Reduces support for the Bicentennial during FY 1976.

Division recommendation: Option #3.

Issue #3: The nature and level of administrative support.

Option #1: Provide no increase in either personnel ceilings or in administrative funds in accord with the planning budget.

Pro:

-- In accord with a moderate budget, personnel and administrative costs should be constrained.

-- Requires the Foundation to focus on its current administrative activities and reduce where necessary.

Con:

-- Does not provide for additional staff for anticipated increase in workload.

Option #2: Provide an increase in full-time permanent and total positions of 320 (above a base of 387 and 557, respectively) bringing these ceilings to 707 FTP and 877 total. This is in accord with the Foundation's requested level of $296.8 million.

Pro:

-- Will provide adequate staff to program and management increases the proposed funding level entails.

Con:

-- Will provide precipitous growth in staff which would strain the Foundation's absorption powers greatly.

Division recommendation: We recommend no increase in administrative support for the Foundation. We believe that there is existing latitude with personnel ceilings and administrative support funds to allow the Foundation to accomplish its mission. Moreover, the President's desire to curb Federal personnel ceilings further mandates this position.

Finally, we recommend that the following directions be given to the Foundation:

-- As soon as possible, the Foundation should locate within one building in order to consolidate operations and cut operating costs.

-- Travel policies should be reexamined in the light of the President's recent initiatives to cut Federal spending and suitable reductions taken.

Prepared by (Examiner): John Lively

Approved by (Program Division Chief): C. William Fischer

TAB

B

NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES

WASHINGTON, D.C. 20506

December 13, 1974

MEMORANDUM FOR THE PRESIDENT

FROM:

Nancy Hanks, Chairman,
National Endowment
for the Arts

Ronald Berman, Chairman,
National Endowment
for the Humanities

SUBJECT: OMB Recommendations on the Arts and Humanities

Summary

1. In the out-years, we believe the OMB recommendations are going in the opposite direction from your own policy (OMB recommends a reduction of $40 million from its 1976 level!).

2. In Fiscal 1976, the OMB recommendations are going in a backward direction (OMB recommends some $10 million below the Administration's request for funds last year!).

None of the recommendations would maintain your leadership position in this field; to the contrary, particularly the proposal on the out-years, would simply and honestly be interpreted as a reversal of your own policy and a radical change in federal policy toward the Arts and Humanities.

Out-Years 1977-80

OMB recommends an out-year budget authority of $145 million for all four years, or a $40 million cut below its recommendation for 1976. It is particularly crucial that you focus on this figure at the present time because you will be required to transmit re-authorization legislation to the Hill in April. Whatever figure is in the budget, will be in your re-authorization request. The OMB figure means that you would be asking Congress for authorization funding levels at HALF the current authorization level to which you gave your full support and to which your leadership so contributed in the Congress.

OMB's rationale is that since many of the agency's activities are contributing to the Bicentennial, we should drop them forthwith -- i.e. programs like folk arts, crafts, preserving our cultural heritage in our nation's museums, improving federal design, major film series on America's history, etcetera. These agencies view these activities as ongoing, so does the Congress,* and until OMB's action, we had thought the Administration did, too! It has been repeatedly emphasized to us by the Congress -- and our advisory Councils, that we should in no way alter our policies to accommodate Bicentennial programs having one-time or temporary impact on the Nation. It was made clear to us that we should consider the Bicentennial not as a peak from which Federal support to the arts and humanities would descend, but a step from which it would continue forward to the permanent betterment of our Nation.

At the very minimum, we recommend an out-year figure of $300 million. This is the PRESENT AUTHORIZED CEILING for 1976! This means you would be requesting Congress simply to extend the presently authorized level for four years. Within that ceiling, you could then later determine the appropriation level you wished to request. (If you wish to scale the out-year projection to $300 million by 1980, the four-year figures would be 225, 250, 275, 300.)

While the $300 million is substantially below what is needed, or what in normal times we would urge you to consider, it is at least not a REDUCTION, which would bring criticism from all sides. We cannot think of many who would applaud.

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* See attached statement.

1976 - Budget Authority

OMB is recommending $185 million. This amount is almost exactly equal to the Foundation's current operating level. Since in fact we are in a growth industry, so to speak, this would mean a distinctly backward programmatic step.

At the very minimum we urge you to consider recommending $200 million for the 200th anniversary year of the Nation. This would give people a figure that not only sounds good, it is good, it is a Bicentennial goal in which you could take pride and make an impact. The figure happens to be about the amount ($195 million) the agencies requested from Congress in Fiscal 1975. It represents only a 15.6% increase over the current year budget authority; and $15 million would be in private money. It is $100 million below the authorized ceiling for 1976; indeed, $27 million below the 1975 authorized ceiling.

1976 - Outlays

The OMB has recommended an FY 1976 outlay figure of $175 million. Given a $185 million budget authority, our calculations indicate that the outlay figure is in error. Our experience has proven that we would require a figure of $180.8 million. We recommend that OMB take into account the agencies' past experience and judgment on the outlay ceiling needed.

Please note: if your problem is still with federal cash outlays, we have determined a way to maintain the "Treasury Matching Fund" concept while insuring that the private monies involved are not counted as federal cash outlay. This would also have the advantage of curing many administrative headaches as well as reducing administrative costs. Basically, it could be accomplished by asking for all or almost all federal monies in "definite" appropriations. However, a certain amount of those funds would be used like "Treasury Fund" grants, with donors in the private sector simply notifying us of the gifts they make directly to our grantees. We have reason to believe Congress would be willing to consider such an arrangement.

1976 - Transition

The OMB recommendation is to provide exactly one-fourth the recommended 1976 budget authority, for the 3-month transition period. Because we serve constituencies such as state arts agencies, or tie obligations to academic years and performing/exhibition seasons that begin late summer/early fall, we request that the transition period funding level take this into account.

1976 - Administrative Funds, Personnel, and Management

The OMB recommendation is that the 1975 administrative figures be held in 1976.

At a minimum, we urge $13 million in administrative funds. We are not going to be able to keep the agencies going without some form of automatic data processing. We must have a minimum of $540,000 to continue the implementation of ADP support capability. Further, no matter what the level of appropriations, by law we have to review each application through an advisory process, and the applications in the Arts Endowment, for example, increased more than three-fold (from 6,000 to 19,500) in two years. We simply must have more administrative funds and personnel to handle the applications fairly.

OMB reportedly has included suggestions that we consider moving into one building (that is impossible); review our expenses on travel (we will, of course, but keeping in mind that we simply must have funds to evaluate before making grants via staff, panel and Council travel); and questions providing technical assistance (the National Councils view this as one of THE most important functions of the agency).

Attachment

THE BICENTENNIAL

As an example of Congressional intent, specifically directed to this most important subject, we quote from the April 3, 1973 Senate Report on our reauthorization legislation.

> "The Committee calls attention to a major purpose of the Act which is to encourage the development of a climate in which the arts and humanities may flourish. In this regard, long range goals are essential, rather than goals which relate to a specific period of time, no matter how important that given limited time period may be. With respect to the Endowments' work, the Committee believes that the Bicentennial should be considered in terms of lasting and abiding values, rather than in terms which have only temporary or limited meaning to future cultural growth.
>
> "It should also be emphasized that the funding levels recommended are in accord with the rate of growth to date, with the needs expressed by both Endowments reflecting the numbers of applications of high quality which they are presently unable to support, and with the basic principles that federal funds provide a most important incentive toward engendering greater private support."

OCCUPATIONAL SAFETY AND HEALTH REVIEW COMMISSION (OSHRC)

OMB's recommendation would deny increase in Administrative Law Judge (ALJ) and support personnel because productivity increased 100% between 1972 and 1974, in terms of cases decided per ALJ. The productivity increase projected by the Commission in its budget submission indicated current staff could absorb a 37.5% caseload increase between 1974 and 1976. The OMB recommendation would reduce the three separate legal review staffs of the Commissioners by nine positions since a new joint staff serves all three Commissioners. It would eliminate $250 thousand in costs of printing bound volumes of ALJ decisions because of small demand, the availability of trade press digests, and the existence of less costly means to provide copies on request.

The Commission appeals generally for its original full request. Specifically, it now says it does not anticipate further productivity increases and asks for 7 more ALJ's (and 3 clerks) to avoid increases in backlog or elapsed time between a notice of contest and an ALJ decision. It also asks for the $250 thousand for printing ALJ decisions, as District Court decisions are printed, to help employers decide within the 15 days allowed them whether to contest citations and to meet Information Act requirements to publish or make decisions readily available.

OMB still believes productivy increases will permit the current number of ALJ's to handle 1976 workload. The most productive ALJ's already decide 44% more cases than the average. (However, if DOL is given 180 more compliance officers as it requests, an additional 8 ALJ's would be required. We will increase the Commission's budget if the final decision gives DOL more compliance officers.) Less expensive duplicating processes can meet the small demand for copies of ALJ decisions. A long time is required to issue bound volumes; the public therefore relies on the trade press, not the Commission, for current information.

	Budget authority (in thousands of dollars)	Outlays (in thousands of dollars)	Full-time permanent employment
1974 actual	4,687	4,595	156
1975 agency request	5,843	5,780	183
1975 OMB recommendation	5,512	5,512	172
1976 agency request	5,880	5,880	175
1976 OMB recommendation	5,300	5,300	165
Effect of OMB recommendation on agency request	-580	-580	-10
Transition period	1,798	1,325	165
1977 estimate	5,300	5,300	165

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

Comments

No change from agency request.
An additional memorandum concerning future cost overruns in being prepared for the President's consideration.

	Budget authority (in thousands of dollars)	Outlays (in thousands of dollars)	Full-time permanent employment
1974 actual	164,894	170,410	
1975 current estimate	126,889	184,900	Not applicable to this agency
1976 agency request	99,724	181,600	
1976 OMB recommendation	99,724	181,600	
Effect of OMB recommendation on agency request	--	--	
Transition period	26,700	39,600	
1977 estimate	120,609	182,300