On September 27, 1994, 367 Republican candidates for the U.S. House of Representatives signed the Contract With America which became their unified campaign platform outlining what legislative initiatives the Republicans would bring before the House for votes during the first 100 days of the 104\textsuperscript{th} Congress if they were to win the majority of seats in the House of Representatives. With the November 8\textsuperscript{th} elections, the Republican majority became a reality, and the clock began ticking on January 3\textsuperscript{rd} on the 100 days’ promise. While Republican Senate candidates were not part of the Contract-signing, their victory on capturing a majority of the Senate seats ensures Senate consideration of the Contract, albeit on a slower time-line.

While the Contract has many parts, including welfare reform and term-limits for representatives and senators, three main elements of the Contract are to increase defense spending, provide tax cuts, and balance the budget by 2002. In one way or another, all of these cost money. While the increases in defense spending are yet to be specified, the congressional Joint Committee on Taxation has estimated that the tax cuts outlined in the Contract will cost a total of $200 billion over 5 years. Further, because the annual federal deficit is about $200 billion, many more hundreds of billions of dollars will be necessary to balance the budget by 2002.

**Direct Effects on Education**

While not explicitly outlined in the Contract With America, background document provided at the time the Contract was signed list possible programs which could be cut or refashioned in order to generate funds to pay for the Contract. Federal student aid programs for post-secondary education or training were included on this list. Specifically, the Republicans have proposed that the in-school interest payment on student loans be eliminated. Currently, for students meeting certain eligibility criteria, the Federal government pays the interest payment on student loans while the student is in school. The rationale for the Federal government paying for the in-school interest payment is that most students do not have “extra” money available while they are in school as evidenced by them taking out a student loan. As proposed in the accompanying background documents, the Contract would end this Federal payment and instead would require that in-school interest payment accrue while the student is in school. The accrued interest amount would then be added to the loan balance when the student begins repaying the loan. The impact of this proposal is that students financing their post-secondary education with Federal loans will graduate owing more money. Eliminating the in-school interest subsidy and shifting this cost to the student means the Federal government would spend $9.6 billion less over 5 years, according to the Congressional Budget Office.

Also contained in the background document are proposals to cut all campus-based student aid programs. The campus-based programs allow financial aid officers a large degree of flexibility to fill an “unmet need” that could not be fulfilled by either the Pell Grant program or the student loan program. These programs include Work Study,
Perkins loans, and the Supplemental Educational Opportunity Grants. The Contract’s background documents propose that half of the savings generated by eliminating all campus-based aid programs would be rolled over into the Pell Grant program. The other half of the funds generated by eliminating campus-based aid would be used to pay for the Contract.

A provision in the Contract’s “Personal Responsibility Act” that would affect elementary and secondary school calls for the creation of a Food Assistance Block Grant which would combine the Food Stamp, School Lunch and Breakfast programs, other child nutrition programs, and the Special Supplemental Feeding Program for Women, Infants, and Children (WIC). The “entitlement” nature of the School Lunch and Breakfast programs would be eliminated which means that, if the number of students qualifying for a free or reduced price meal grows, the funding would not necessarily increase. The block grant would then be turned over to the states, and each governor would determine how to allocate funds among the food assistance programs. Schools and other administering entities participating in the Food Assistance Block Grant are prohibited by the Personal Responsibility Act from serving illegal and legal aliens.

Finally, the Contract’s “Taking Our Streets Back Act” Calls for the elimination of several crime prevention and enforcement programs that were enacted as part of last year’s crime bill. As part of the Crime Control Act of 1994, funds were provided to local communities – including schools – to assist them in combating crime through prevention programs. Also, the Crime Control Act provided separate funding to hire additional law enforcement officers. Under the Contract, most of these crime prevention programs and the funds to hire the additional police officers are eliminated as separately authorized activities. Instead, a general block grant for law enforcement is created. Decisions on how the law enforcement block grant funds will be used in a state would be left to the discretion of the governor and local communities, and there is no requirement that a portion of the block grant funds be used for prevention programs. The Congressional Budget Office estimates that overall funding for programs to combat crime will be reduced by $2.3 billion over the next five years due to the creation of the block grant.

Indirect Effects

In the student aid and child nutrition arenas, the House Republicans have expressly indicated what they may do, but the effect of the Contract on other Federal elementary and secondary education programs is less clear. It is a certainty that Federal funding will have to be cut in order to fully finance the Contract, especially the tax cuts and the balanced budget amendment. To better understand where funding cuts may come from, it is helpful to understand the Federal budget.

The Federal budget is divided into four major parts: interest on the national debt, defense spending, entitlement spending (programs which automatically see funding increases or decreases as the number of eligible participants grows or decreases), and domestic discretionary spending (which includes most education spending, funding for medical research, and resources to fight crime). By law, the Congress cannot tamper with the obligations to make interest payments on the national debt. And it appears that, under the Contract, defense spending would not be subject to funding reductions because the Contract calls for increasing – not reducing – defense spending. Entitlement spending, to a certain degree, is likely to be reduced because the Contract proposes to
eliminate or greatly restrict certain entitlement spending, such as the student loan and School lunch programs. However, some Republicans have also expressed a desire to keep one of the largest entitlement programs, Social Security, safe from any funding cuts.

The open question is how will spending for many education programs and other Federal initiatives which fall in the “domestic discretionary” part of the budget fare in the cuts? The Contract (and accompanying documents) contains few specifics about how these programs will be treated, but here are some possible scenarios.

First, the Congress could determine that the simplest way to come up with the necessary funding would be to implement an “across the board” cut. This simply means that a set percentage reduction would be applied to all Federal spending that was considered to be available for cuts. If Social Security is included on the list of programs that would be cut, the committee for education funding has estimated the percentage to be 26% annually for five years. If Social Security is protected from the cuts, then the estimated percentage climbs to 30%. The effect of an across the board cut would be felt in every school district in the nation that receives Title I funding when the district receives 30% fewer Federal dollars.

Second, the Congress could determine that there are some programs within the Federal budget that should not be cut. The case would have to be made that these programs must be protected because they provided vital assistance. However, the more programs that are protected, the greater the funding cuts will be in other programs that remain. And, of course, the Congress could just as easily decide to eliminate entirely funding for any given Federal program not seen as successful.

Third, the Congress could find additional budget savings by creating “block grants”. Block grants involve taking several separate programs with similar purposes and combining them into one program with one set of requirements. The creation of a block grant almost always means that the overall funding for the combined program is less than that of the separate program, on the theory that fewer programs require less administration and therefore fewer dollars. While states and school district may see some increased flexibility in the use of Federal fund through a block grant, they will also face the possibility of seeing reduced federal dollars in order to pay for the Contract.

Questions

As Congress moves to consider the Contract With America, there are many questions which should be asked regarding the intent and effect of the Contract on education:

- How will the changes proposed by the Contract impact the education of children?
- Will states and localities be able to make up for the Federal services lost due to the Contract’s implementation?
- Will making the student responsible for the interest that accrues on a student loan tend to limit those who will be able to pursue a college education?
- Are cuts in Federal programs related to education justified as part of the effort to cut taxes, to increase defense spending, and to balance the Federal budget?
- Are block grants which give discretion to the states in how Federal dollars are spent an effective way of distributing Federal funds for education?