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LEFT BEHIND IN GOOD TIMES AND BAD

Administration's 2003 Budget Proposes Reductions in Programs for Low- and Moderate-Income Families Amidst an Economic Slump

by Richard Kogan

In its coming work in January to complete action on the appropriations bills for fiscal year 2003, Congress will face decisions on whether to reduce funding for low-income programs during an economic slump. The Administration is insisting that the total level of appropriations for discretionary (or non-entitlement) programs not exceed \$750 billion, a level that is consistent with the President's budget request for 2003 but that the Senate and House Appropriations Committees resisted until a few weeks ago as inadequate.¹ The Republican Congressional Leadership — including the chairmen of the Appropriations Committees for the new Congress — are now reported to have accepted this level.²

When Congress writes appropriations bills in January to fit within these targets, programs serving low- and moderate-income families and individuals are likely to suffer reductions. That this is likely to be the case is indicated by the President's budget, which would cut many low-income programs and includes particularly large reductions in the Low-Income Home Energy Assistance Program (LIHEAP) and job training programs. The Administration's budget proposes to reduce fiscal year 2003 funding for low-income programs other than education programs by \$3 billion, or 4.6 percent, compared with the Congressional Budget Office baseline (i.e., compared with the 2002 level adjusted for inflation).

The call to hold overall appropriations for fiscal year 2003 to \$750 billion — and the accompanying Administration proposals calling for a number of low-income programs to be reduced as part of this effort — will be considered at the same time that the President and

¹ This analysis covers programs funded through annual appropriations, the so-called "discretionary," programs. It does not cover entitlement programs such as Medicaid, Food Stamps, or Veterans Pensions. Previously, the Senate Appropriations Committee had unanimously agreed to adhere to the overall funding level in the congressional budget plan reported in April by the Senate Budget Committee, a level that would have reduced domestic programs outside homeland security by \$10 billion *less* than the Administration was prepared to accept. For a discussion of this disagreement between the Administration and some in Congress over the level of appropriations for 2003, see Center on Budget and Policy Priorities, "Will Congress Reduce Funding for Domestic Programs Outside Homeland Security?" September 30, 2002, available at <http://www.cbpp.org/9-30-02bud.pdf>.

² "Republican leaders in Congress appear to have agreed with the White House on a fiscal year 2003 discretionary spending limit ... [of] about \$750 billion..." Adam Wasch and Bud Newman, *Daily Tax Report*, November 26, 2002, page G-6. The figure of \$750 billion covers both defense and non-defense appropriations. It equals CBO's estimate of the President's February 2002 request for "FY 2003 discretionary budget authority," plus \$1 billion in additional funds the President requested in September, minus \$10 billion that is currently being held in reserve by Congress (at the President's request) for defense contingencies. The figure is \$1 billion above the level in the House-passed congressional budget plan for 2003.

Congressional leaders of both parties are increasingly speaking of a new “stimulus” package to be developed at what undoubtedly will be a substantial cost. Numerous economic studies show that targeting resources on low- and moderate income households is more effective in stimulating a weak economy than increasing the after-tax income of the affluent, since affluent individuals tend to save rather than spend a greater share of the income they receive than people of lesser means do. Yet policymakers appear headed toward new tax cuts that are of dubious value as economic stimulus, would entail permanent costs, and would disproportionately benefit wealthy investors, while cutting programs for low-income households and further increasing the hardships such households face amidst an economic slump.

The “Continuing Resolution” that Congress has adopted to fund the federal government runs through January 11. It is expected that between now and then, Appropriations Committee Members and staff will work out differences on a wide range of appropriations issues, so that progress can be made in setting funding levels and these matters can be resolved early in the next Congress, with the reported deadline for completion of all regular appropriations legislation for 2003 now being the State of the Union address. Various issues related to funding levels for low-income programs in 2003 are likely to be discussed in the weeks ahead, even while Congress is out of session.

It may be noted that the Bush Administration proposed reductions in the overall level of appropriations for low-income programs not only in the budget it submitted in February 2002, when deficits had reappeared, but also in the budget it submitted in 2001, when large surpluses were projected. This raises the question of whether the Administration will propose further reductions in these programs in its new budget for fiscal year 2004, which the Administration is due to submit to Congress on February 3.

The Administration’s Proposals for Low-income Programs

Table 1
Increases Or Decreases In Funding For Annually Appropriated Programs Assisting
Low- Income Families And Individuals Proposed In The First Two Bush Budgets
 (relative to the CBO baseline, in billions of dollars)

	Bush request, FY2002, relative to FY2001 adjusted for inflation		Bush request, FY2003, relative to FY2002 adjusted for inflation	
	dollars	percent	dollars	percent
Low-income education programs	1.8	7.7%	0.9	3.1%
Other low-income programs	-2.9	-4.6%	-3.0	-4.6%
Total	-1.1	-1.3%	-2.2	-2.3%

Source: CBO. Totals may not add due to rounding. See Appendix for discussion of the data and for account-level figures.

The current Administration budget — the budget for fiscal year 2003 — was put together at a time when federal revenues were falling, big surpluses were giving way to sizable deficits, and a new and unexpected war against international terrorism had emerged to compete for attention and resources. The Administration’s first budget, developed shortly after the President assumed office, was developed in a very different climate — one of apparent peace, prosperity, and projected surpluses so large that a rather massive tax cut was considered affordable and influential people worried publicly about the possibility that the federal government would pay off its debt “too quickly.” Given the great change in circumstances between February 2001 and February 2002, it is striking that these two Administration budgets are so similar with regard to their treatment of low-income discretionary programs. Both budgets proposed increases in low-income education programs, but decreases for other low-income programs totaling about \$3 billion, or nearly five percent, from the previous year’s funding level, adjusted for inflation.

Table 2
2002 and 2003 Funding for Low-income Programs

	amount (in billions)	percent change from baseline
2002 baseline (2001 funding, adjusted for inflation)	\$88.3	
Bush 2002 request	\$87.1	-1.3%
Actual 2002 funding	\$91.1	+3.2%
2003 baseline (2002 funding, adjusted for inflation)	\$93.9	
Bush 2003 request	\$91.7	-2.3%

The bulk of the reductions proposed in low-income appropriations in the Administration’s fiscal year 2003 budget would occur in four areas: low-income housing, job training, the Low-Income Home Energy Assistance Program, and Health Resources and Services. The latter account encompasses a number of programs that provide health care to low-income families and individuals, including maternal and child health grants, community health centers, family planning, the community access program (which facilitates coordination of health care services for the uninsured), and health care to some persons with HIV or AIDS (whose condition often leaves them without jobs or health insurance). While the budget proposes increases for community health centers, it proposes freezes or reductions in the other low-income programs within the overall account for Health Resources and Services.³

³ In 2002, about 70 percent of the Health Resources and Services account directly served low-income persons; the President proposes a net reduction below the CBO baseline in these programs. In addition, other programs within the HRSA account, although not classified as low-income programs, may also benefit some low-income persons. The President’s budget proposes net reductions in these programs as well.

Last Year Congress Declined to Approve Most of the President's Proposed Cuts, But This Year May be Different

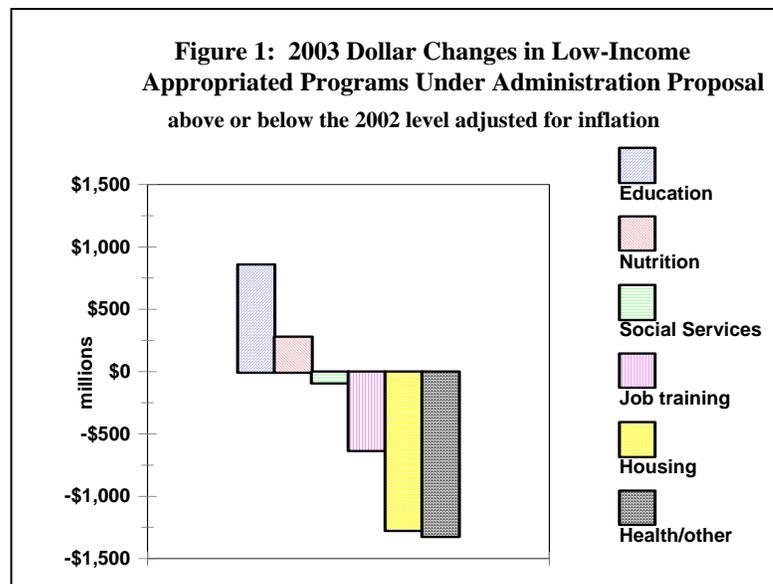
Last year, Congress rejected or ameliorated most of the reductions the Administration proposed for low-income discretionary programs in fiscal year 2002 (see Table 2). An exception was the low-income housing area, which was reduced.

Last year's restorations occurred, however, only after Congress decided to increase somewhat above the Administration's request the *overall* amount made available for discretionary programs. If such an increase in the overall appropriations level does *not* occur for fiscal year 2003, Congress may decline to restore resources for programs serving low- and moderate-income households.

This risk is heightened by the fact that outside of defense, homeland security, and international affairs, the Administration's budget for 2003 proposes noticeable reductions in the overall level of funding for appropriated programs. As a previous analysis by the Center on Budget and Policy Priorities demonstrates, the Administration's budget for 2003 would increase funding for defense, homeland security, and international affairs by \$42 billion above the 2002 level, adjusted for inflation, while reducing funding for domestic appropriations outside homeland security by \$14.5 billion.⁴ If the President's proposed defense and homeland security increases are approved as expected and the Administration's overall total for appropriations is adhered to, the proposed cuts in low-income programs could be eased only by making larger cuts in other domestic appropriated programs, many of which have more powerful constituencies than the low-income programs do.

Proposed Reductions in Programs Serving Low- and Moderate-Income Households

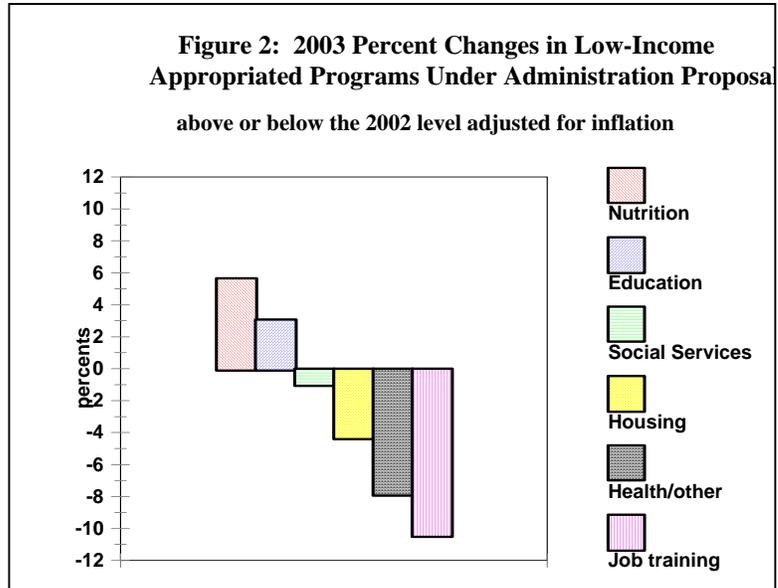
There are 36 appropriations "accounts" in which the majority of the funding in the account is used to provide services to families or individuals with low or moderate incomes. This analysis examines Administration budget requests and Congressional action regarding these 36 accounts. (The 36 accounts and the proposed funding levels for them



⁴ Op. cit. Most of the proposed defense increase was enacted into law when the Department of Defense and the Military Construction appropriations bills were enacted in the fall. (Some \$10 billion in defense funding that the Administration initially proposed to be held for later contingencies has in fact been held in reserve by Congress and is not included in those bills.) Funding for the nuclear weapons program, for international programs, and for homeland security, like funding for other domestic programs, will be included in the remaining appropriations bills, to be completed in January.

are listed in the Appendix). The Administration's budget for fiscal year 2003 proposes that 26 of these accounts — or 72 percent of them — be reduced below their 2002 level adjusted for inflation. (See Figures 1 and 2; Figure 1 shows the proposed increases or reductions in dollar terms, while Figure 2 shows the proposed increases or decreases in percentage terms.)

As the Figures indicate, the proposed reductions do not include education programs, which would be slated to receive increases (although the education increases the Administration has proposed are noticeably smaller than those that were enacted in previous years). Outside education, the proposed 2003 reductions in low-income discretionary programs average 4.6 percent below the 2002 level, adjusted for inflation.



Is Keeping Pace with Inflation Sufficient?

With some exceptions, the programs discussed in this analysis are designed to provide services or benefits to families or individuals who fall within specified income categories. These programs are not entitlements, and no beneficiary is guaranteed the services or benefits that these programs provide. In general, if funding is inadequate, eligible beneficiaries are turned away or the level of services is reduced. For example, when funds fall short, eligible beneficiaries may not be able to receive help paying for child care while they work, slots in job training programs, or treatment at community health centers.

For this reason, the programs that this analysis covers are especially important during periods when the economy is in recession or performing below capacity. During such periods, unemployment and poverty rise, and many families that had formerly been supporting themselves and their children without assistance find they can no longer do so. If Congress raises funding levels for these programs by more than inflation during periods of elevated unemployment, the programs are better able to respond to the temporary increase in need and also can provide some economic stimulus for the economy as a whole. Increases in these programs prop up consumer purchases at a time when consumer spending is otherwise stagnant or declining and thereby help to prevent further job losses. Funding increments for the low-income programs thus will directly assist people who lose their jobs during a recession while also indirectly helping people who are still employed to keep their jobs.

The Current Economy and a Possible Stimulus Package

The unemployment rate is likely to remain elevated through most or all of fiscal year 2003. The Congressional Budget Office forecasts that the unemployment rate will not begin to decline much until the second half of *calendar* 2003, or until nine months of *fiscal* year 2003 have passed.

In recognition of the difficulties that the economy continues to face, the Administration and Congressional leaders of both parties are talking of developing and enacting a new “stimulus” package when the new Congress convenes. It would seem inconsistent to fashion new stimulus measures that may take months to implement and many of which may be of limited effectiveness as stimulus, while imposing immediate cuts in services and benefits for low-income families and individuals.

Reducing overall funding for low-income appropriated programs below last year’s level adjusted for inflation — a step likely to increase hardship at a time when the economy remains weak — seems an especially dubious step to take at the current time. If stimulus is needed, it is likely to make more sense to increase certain of the low-income programs than to cut them. Cutting such programs while implementing new tax cuts for affluent investors — especially new tax-cut measures that leading tax policy analysts have examined and found to be both expensive and ill-designed to spur the economy — would be particularly inappropriate.⁵

⁵ See William G. Gale and Peter R. Orszag, “A New Round of Tax Cuts?” Center on Budget and Policy Priorities, August 23, 2002, available at <http://www.cbpp.org/8-22-02tax.pdf>.

Appendix

This Appendix discusses the criteria used for considering appropriated, or “discretionary,” budget accounts as low-income for the purpose of this analysis. It lists each such budget account and shows the funding level in the Congressional Budget Office baseline for fiscal years 2002 and 2003, the amount requested by the Administration for those years, and the amount appropriated by Congress for fiscal year 2002.

Criteria for selecting low-income programs

In selecting programs for inclusion in this analysis, we used two primary criteria:

- The programs must be intended to assist low-income persons and devote a clear majority of their resources to those persons. Some such programs have explicit income limits, such as WIC and many of the low-income housing programs. Others, such as Indian health and Indian education, programs for the homeless, and health care services for people with AIDS, provide assistance for persons who have little or no income or resources, even though an income test may not be administered. Some programs included here assist low-income people whose income may be modestly above the poverty line along with those who are below the poverty line, but in such cases, the incomes of all or virtually all beneficiaries are well below the median income, and many are below the poverty line.
- The programs must directly provide assistance or services to individuals. This criterion generally excludes most regional development programs such as Community Development Block Grants and the Appalachian Regional Commission, although the infrastructure and business development undertaken by such programs can ultimately improve the economic circumstances of some low-income persons. In addition, it excludes the administrative costs of federal programs.

For ease of analysis, we included (or excluded) entire budget accounts in the low-income list. In some cases, such as WIC or Title 1 Education, the budget account is a single program. In other cases, such as Training and Employment Services or Higher Education, the budget account includes a number of programs. In cases such as the latter two, a budget account was included in this analysis if the bulk of the costs within the account occur in low-income programs contained in the account.

Data used in this analysis

Table A-1, on page 9, lists by category and account the fiscal year 2002 budget authority, or funding level, for each discretionary low-income program budget account used in this analysis. The first column lists the CBO baseline amounts against which spending increases or decreases in FY 2002 are measured; that is, it shows the actual 2001 funding levels adjusted for inflation and technical anomalies such as in Section 8 housing. The second column in the table lists the FY 2002 funding the President requested for these programs in his budget, and the third lists actual funding for the programs contained in the FY 2002 appropriations acts, including the

emergency supplemental appropriations bill enacted immediately after the September 11 terrorist attacks.

Table A-2 lists the same data for the FY 2003 budget: the first column lists the CBO baseline figures and the second lists the FY 2003 funding the President requested for these programs in his budget.

Treatment of certain “advance” and supplemental appropriations

Certain programs receive funding to span a 12-month period that falls partly in one fiscal year and partly in the next. This funding approach is especially common for education and job training programs, which generally are funded to cover costs over the course of a “school year.” For most such programs, Congress provides an appropriation of a dollar amount for the budget year that is designed to cover the first part of the 12-month period; in addition, Congress provides an “advance appropriation” for the subsequent fiscal year that is designed to cover the remainder of the 12-month period. The table below accounts for this phenomenon by showing the “program level” for the 12-month period, that is, by summing the regular and advance appropriation that fund each school year.

The following table uses Title 1 Education as an example of this approach. (That account received the largest year-to-year dollar increases of any low-income program over the period covered in this analysis.) In this analysis, we use the figures in the right-hand column, which show the amount of funding for the 12-month school year that starts 9 months after the beginning of the fiscal year in question.⁶

Funding for Title 1 Education Used in this Analysis

budget authority in millions of dollars

	“Budget-year” funding	“Advance” appropriation	Total funding for the 12-month school year
FY 2001 appropriations Act	<u>for FY 2001</u> 2,774	<u>for FY 2002</u> 6,758	<u>for school year 01-02</u> 9,532
FY 2002 CBO baseline	<u>for FY 2002</u> 2,835	<u>for FY 2003</u> 6,907	<u>for school year 02-03</u> 9,742
FY 2002 Administration request	11,011	0	11,011
FY 2002 appropriations Act	4,964	7,383	12,347
FY 2003 CBO baseline	<u>for FY 2003</u> 5,058	<u>for FY 2004</u> 7,535	<u>for school year 03-04</u> 12,593
FY 2003 Administration request	6,002	7,383	13,385

Source: CBO

⁶ The accounting we use in this analysis is the same used by the Department of Education, which employs the term “program level” to describe the amount of funding for a given school year. Alternatively, one could sum the amounts available for a single fiscal year. For instance, the total amount appropriated for FY 2002 equals \$11,722 million (the advance appropriation of \$6,758 million made in the FY 2001 appropriations Act plus the budget-year appropriation of \$4,964 million made in the FY 2002 appropriations Act). The disadvantage of that alternative approach, however, is that it combines a portion of funding made in one appropriations Act with a portion made in

To provide meaningful comparisons between funding decisions of the previous Congress and funding decisions of the President and this Congress, we used CBO data from the spring of 2002, before enactment last July of the 2002 Supplemental Appropriations bill. As a result, the amount actually appropriated for FY 2002 (shown in Table A1) does not include the supplementals or rescissions enacted in the July 2002 Supplemental Appropriations bill. Likewise, CBO's baseline projection for FY 2003 (shown in Table A2) does not project any of the supplementals or rescissions in that bill.

Table A-1
2002 Funding for Low-income Programs by Category
in millions of dollars

Program Area	CBO Inflation-Adjusted Baseline	Bush Request	Appropriations Bills
Education	\$23,334	\$25,140	\$27,399
Student financial assistance	10,909	11,674	12,286
Education for the disadvantaged	9,742	11,011	12,347
Higher education	1,954	1,723	2,031
Indian education ⁷	729	732	735
Job Training	6,243	5,569	5,929
Training and employment services ⁸	5,793	5,129	5,484
Community service employment for older Americans	450	440	445
Social Services	8,135	8,181	8,429
Children and families services programs	8,135	8,181	8,429
Housing	29,270	27,610	27,103
Housing certificate fund	16,247	15,717	14,441
Public housing operating fund	3,306	3,385	3,495
Public housing capital fund	3,059	2,293	2,843
HOME investment partnership programs	1,836	1,796	1,846
Homeless Assistance Grants	1,046	1,023	1,123
Housing for special populations (the elderly and disabled)	1,016	1,001	1,024
Rural Housing – Rental assistance program			
Native American housing block grant	694	694	701
Revitalization of severely distressed public housing	663	649	649
(HOPE VI)	587	574	574
Drug elimination grants for low-income housing			
Housing opportunities for persons with AIDS	315	0	0
Shelter plus care renewals	263	277	277
Rural housing assistance grants	102	100	0
Mutual and self-help housing	45	39	39
Farm labor housing loans and grants	35	34	35
Rural Housing and Economic Development	30	28	31
	26	0	25

another, and similarly combines funding covering a portion of one school year with funding covering a portion of another.

⁷ This total combines the Indian education account and the Indian education portion of the BIA Operation of Indian Programs account.

⁸ Includes only those amounts classified in the official “Training and Employment” subfunction.

Program Area	CBO Inflation-Adjusted Baseline	Bush Request	Appropriations Bills
Nutrition	4,572	4,563	4,828
WIC	4,132	4,137	4,387
Food donations programs	154	151	151
Commodity assistance program	143	135	150
Emergency food and shelter program	143	140	140
All others	14,978	14,357	15,747
Health Resources and Services	5,710	5,013	6,111
Indian health services	2,337	2,387	2,390
Child care and development block grant	2,044	2,200	2,100
Low income home energy assistance	1,738	1,700	2,000
BIA Operation of Indian Programs	1,177	1,164	1,185
Rural Housing insurance fund ⁹	686	664	668
Refugee and entrant assistance	455	445	460
Indian health facilities	373	320	369
Payment to the legal services corporation	336	329	329
Lead hazard reduction program	102	110	110
Job access and reverse commute grants	20	25	25
Total	\$86,532	\$85,420	\$89,435

⁹ For simplicity, this program is classified in the “all other” category; as a result, the housing category is limited to programs within the official budget “subfunction” called “housing assistance.”

Table A-2
2003 Budget Proposal for Low-income Programs by Category
in millions of dollars

Program Area	CBO Inflation-Adjusted Baseline	Bush Request ¹⁰
Education	27,932	28,791
Student financial assistance	12,519	12,768
Education for the disadvantaged	12,593	13,385
Higher education	2,070	1,883
Indian education ¹¹	750	755
Job Training	6,047	5,416
Training and employment services ¹²	5,594	4,976
Community service employment for older Americans	453	440
Social Services	8,597	8,509
Children and families services programs	8,597	8,509
Housing	30,275	28,957
Housing certificate fund	17,374	16,427
Public housing operating fund	3,561	3,530
Public housing capital fund	2,897	2,426
HOME investment partnership programs	1,881	2,084
Homeless Assistance Grants	1,144	1,130
Housing for special populations (elderly and disabled)	1,044	1,024
Rural Housing – Rental assistance program	714	712
Native American housing block grant	661	647
Revitalization of severely distressed public housing (HOPE VI)	585	574
Housing opportunities for persons with AIDS	282	292
Rural housing assistance grants	40	42
Mutual and self-help housing	36	34
Farm labor housing loans and grants	31	35
Rural Housing and Economic Development	25	0
Nutrition	4,921	5,200
WIC	4,471	4,751
Food donations programs	154	151
Commodity assistance program	153	145
Emergency food and shelter program	143	153

¹⁰ Excluding the President’s proposed increases in “accrual” payments to the retirement trust funds.

¹¹ This total combines the Indian education account and the Indian education portion of the BIA Operation of Indian Programs account.

¹² Includes only those amounts classified in the official “Training and Employment” subfunction.

Program Area	CBO Inflation-Adjusted Baseline	Bush Request
All others	16,093	14,823
Health Resources and Services	6,233	5,365
Indian health services	2,455	2,454
Child care and development block grant	2,140	2,100
Low income home energy assistance	2,038	1,700
BIA Operation of Indian Programs	1,216	1,204
Rural Housing insurance fund ¹³	691	705
Refugee and entrant assistance	469	453
Indian health facilities	379	362
Payment to the legal services corporation	335	329
Lead hazard reduction program	112	126
Job access and reverse commute grants	25	30
Total	\$93,865	\$91,696

¹³ For simplicity, this program is classified in the “all other” category; as a result, the housing category is limited to programs within the official budget “subfunction” called “housing assistance.”