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CENTER ON BUDGET AND POLICY PRIORITIES

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STATES CUTTING LOW-INCOME PROGRAMS IN RESPONSE TO FISCAL CRISES

As states cut spending to balance their budgets in the current recession, programs that serve low-income populations are being reduced in states throughout the country, according to a new study, *States Are Cutting Low-Income Programs in Response to Fiscal Crisis: Less Counter-Productive Options Are Available*, by the Center on Budget and Policy Priorities.

Some 19 states have already made specific, identifiable cuts to low-income and human services programs, according to the report. Of these, 17 have cut health care programs, and ten have cut income support or employment support programs (such as child care and job training). Seventeen of the 19 states have also cut other social service programs.

Another eight states have implemented broad, percentage-based reductions in agency budgets that include agencies serving low-income populations. And at least eight other states are currently considering budget cuts to low-income and human services programs proposed by their governors. All told, more than two-thirds of the states have already taken steps to cut spending on programs that serve low-income residents.

Although the study highlights the cuts in programs for low-income populations, it also catalogues the many approaches that states are using to balance their budgets. These include tactics as disparate as de-linking state estate taxes from the federal estate tax changes, postponing scheduled tax cuts, joining multi-state lotteries, and using funds from state settlements with the tobacco industry that states otherwise would have received over the next 25 years to close current deficits.

Specific examples of states that are cutting programs for low-income populations include **Washington**, where the governor has proposed budget cuts that disproportionately target human services; **Florida, Illinois, Indiana**, and **Oklahoma,** where significant reductions in Medicaid spending have been implemented; and **Kentucky** and **Michigan**, which cut welfare spending**.** In all, 35 states so far have moved to cut aid to poor families, and others may follow.

"Cutting programs for low-income families may be the single most damaging step that states can take during a recession," said report co-author Kevin Carey. "Such programs are intended to act as automatic economic stabilizers, because they naturally expand to meet increased levels of need when families lose jobs and income. Because low-income families tend to spend the entirety of the income they receive from such programs, the automatic stabilizers help bolster state economies."

State Fiscal Crisis the Worst in Two Decades; Poorly Chosen Cuts Can Worsen Downturn

State fiscal conditions, already in decline prior to the September 11 attacks, are rapidly approaching a state of crisis. According to the National Conference of State Legislatures, revenues in 43 states are below estimates and 36 states have already planned or implemented cuts in public services. The National Governors Association estimates that total state budget deficits nationwide for the current fiscal year will exceed $40 billion.

"States must balance their budgets each year, so they can't simply borrow funds to cover deficits," Carey said. "Instead they usually must cut spending and/or raise taxes. The trouble with both kinds of measures is that, to varying degrees, they take money out of the state economy, so they potentially can worsen the economic downturn. It is important to try to close deficits in ways that are least damaging to the economy, such as raising revenues from higher-income residents."

Reducing services for low-income people is especially hard on a state's economy, according to the report, because these people tend to spend most or all of every dollar they receive. According to a recent report by economists Peter Orszag and 2001 Nobel Prize winner Joseph Stiglitz, cutting spending on programs that serve low-income people tends to reduce consumption — and thus state economic activity — by the full amount of the spending reduction. By contrast, measures that reduce the incomes of higher-income people, such as certain types of tax increases, cause a smaller decline in consumption because such families are likely able to draw down savings to pay the taxes.

Examples of Reductions in Low-Income Programs

The **Arkansas** Department of Health Services took administrative actions to reduce state Medicaid expenditures in FY 2002 by approximately $13 million. The cutbacks include eliminating a program for people with high medical expenses, which will affect 13,000 people, and ending or modifying coverage for disabled children who require home health services, which will affect 3,000 children.

The **Florida** legislature met for two special sessions before passing $1 billion in cuts to the state budget, which included $48.6 million from Medicaid services to individuals, $5 million from long-term care programs, $4.7 million from child protection programs, and $2.4 million from home and community services for the elderly.

In response to falling revenues, the governor of **Illinois** made cuts to FY 2002 Medicaid expenditures, including $90 million from hospitals that serve high percentages of low-income patients.

Indiana has taken steps to cut Medicaid funding by $251.1 million through eligibility restrictions and reductions in spending on services including pharmacy drugs, nursing homes, and dental care.

Executive budget cuts in **Kentucky** included $5.9 million from the TANF program, $1 million from welfare-to-work programs, and $8.5 million from health services.

The governor of **Maine** has proposed a budget-balancing plan that includes Medicaid cuts of $5.2 million from funding for hospitals, $4 million from delaying expanded coverage, $4.1 million from nursing homes, and $2 million from group homes.

The governor of **Washington** included $246 million in cuts to human services programs as part of his budget-balancing proposal — more than the reductions in higher education, K-12 education, natural resources, and general government combined. While human service programs constitute 32 percent of the state's general fund budget, they account for 43 percent of the governor's proposed reductions.

Maintaining Low-Income Programs Can Assist Families and Strengthens Economy

The need for programs that assist low-income families has risen sharply in recent months, largely due to rising unemployment. The ranks of the unemployed increased from 5.7 million to 8.2 million workers from November 2000 to November 2001, the largest one-year increase since 1982.

"The automatic economic stabilizers are apparently working," said Center Deputy Director and report co-author Iris J. Lav. "With rising joblessness and declining family incomes, applications for programs such as Medicaid, the Food Stamp program, and cash assistance have risen in most states over the last several months.

"By meeting these growing needs and providing resources to the households most likely to spend immediately the financial assistance they receive, states can help support consumer spending and bolster their economies," Lav said.

Some States Are Choosing Less-Harmful Ways to Balance Budgets

States can balance their budgets without cutting low-income programs or undermining the automatic stabilizers. In fact, several states are choosing other options. Some states have explicitly protected low-income programs from budget reductions. Budget cuts in **Colorado** and **Ohio**, for example, specifically excluded Medicaid funding.

Other states have drawn down on state "savings," which add dollars to the state economy and can help improve economic activity. Lawmakers in **Arizona** and **Massachusett**s chose to use rainy day funds and other fiscal reserves to forestall larger program reductions.

Other states have looked at the revenue side of the budget. States including **Florida** and **Virginia** have delayed new tax cuts that were scheduled for 2002, while **Alabama, North Carolina,** and **Ohio** raised new taxes to help balance their budgets.

"Increasing revenues to avoid taking benefits away from families that need them can be a positive step for state budgets and state economies," Carey said.

The report, *States Are Cutting Low-Income Programs in Response to Fiscal Crisis: Less Counter-Productive Options Are Available*, is available on the Center's website, http://www.cbpp.org.

The Center on Budget and Policy Priorities is a nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs, with an emphasis on those affecting low- and middle-income people. It is supported primarily by foundation grants.

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